Financials

We aim to provide our stakeholders with a comprehensive, clear and concise view of our financial position and performance.

Contents

Approaching Our Financial Statements

The objective of financial statements is to communicate the Group's financial information to our stakeholders, especially shareholders, investors and lenders, for making economic decisions. To achieve this objective, it is always our aim to present the financial information of CLP as clearly and concisely as possible. This overview helps you understand how information is organised and presented in our financial statements. Hopefully, this will bring you a more insightful reading experience.

01

Accounting Mini-series

We believe that understanding financial statements is a right, not a privilege. To help those unfamiliar with accounting terms read our financial statements, we have developed an Accounting Mini-series to **explain topical and difficult accounting concepts in a way that is easier to understand.** A number of topics have been discussed since 2007, the content of which can be found in our website.

Read our accounting mini-series

02

Essential Financial Statements

Financial statements start with summaries of the financial position, performance and changes in resources of the Group. **These summaries are presented in three essential financial statements with different objectives as shown in the diagram.** The relationships between these statements and the interactions with the Group's stakeholders are set out in our website.

Statement of Financial Position

A snapshot taken at a point in time, of all the assets the company owns and all the claims against those assets

Assets | Liabilities + Equity

Statement of Profit or Loss and Other Comprehensive Income

Financial performance measured by recording the flow of resources over a period of time

Income | Expenses

Statement of Cash Flows

Where a company gets its cash and how it spends it

Cash Inflow | Cash Outflow

03

Significant Accounting Policies

Financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). You do not need to be familiar with all the requirements of HKFRS because **the accounting policies which are significant and relevant to the Group are disclosed in the financial statements.** The disclosures include specific principles and procedures selected and applied by management in preparing the financial statements, as well as the methods, measurement basis and procedures to account for the transactions.

Look for purple gradient boxes

04

Critical Accounting Estimates and Judgements

Management makes judgements and estimates in preparing the financial statements, some of which will have a significant effect on the reported results and financial position. HKAS 1 specifies that an entity shall disclose (1) the key judgements that have the most significant effect on amounts recognised; and (2) the assumptions and other sources of estimation uncertainty at period end that have a significant risk of material adjustment to the carrying amounts of assets or liabilities within the next financial year. You should pay attention to **our disclosures under "critical accounting estimates and judgements" which help you assess CLP's financial position and performance and understand the sensitivities to changes in assumptions.**

Look for light purple boxes

05

Tips & Hints

Tips & Hints are our initiatives to **facilitate you to understand the content of a particular disclosure or complicated accounting concepts or terms.**

Look for bell boxes

New Definition of Business in the Accounting Context

Mergers and Acquisitions are a way to keep growing a business while achieving instant results.

A company can secure an opportunity through a merger or acquisition allowing the business to enter new markets or offering new options to their existing markets. These transactions may take many forms, from acquisition or combination of target companies to acquisition of target assets. Interestingly, the accounting treatment of a merger or acquisition does not depend on the legal form, but whether the transaction falls into "business" as defined in the accounting context. As CLP also makes use of mergers and acquisitions to keep growing its business, we want to take this opportunity to introduce the new accounting definition of business and its application. Readers interested in the acquisition accounting under business combination can visit the Accounting Mini-series in our website where we have discussed this topic in detail in the past.

Why It Matters

The definition of business is used in determining whether a transaction should be accounted for as an asset acquisition or as a business combination. This distinction is important because the accounting for an asset acquisition significantly differs in certain respects from the accounting for a business combination. Business combinations require the assets acquired to be recognised at fair value with goodwill or gains from bargain purchase recognised. However, asset acquisitions allocate the purchase price to the assets acquired on a relative fair value basis among the assets and no goodwill or gain is recognised.

The application of the definition of business was a very complicated issue in the past, which also resulted in many transactions qualifying as business combinations. The new definition of business based on the HKFRS 3 (revised) does not change the accounting method for business combinations nor asset acquisitions. Instead, it provides a new and narrower definition of business, which will likely result in fewer acquired sets of assets to be identified as businesses.

Key Accounting Implications

Business Combinations		Asset Acquisitions
Fair valued	Identified assets (tangible and intangible) and liabilities	Purchase price allocated based on relative fair value
Expensed as incurred	Transaction costs	Capitalised as part of the purchase price
Recognised	Goodwill	Not recognised
Recognised (occur in occasion)	Bargain purchase	Not recognised
Recognised all resulting deferred tax liabilities and certain deferred tax assets	Deferred tax due to differences from original carrying amounts	Exempted to recognise

New Definition of Business

The new definition focuses on whether an input and a substantive process applied to the input together create outputs or have the ability to contribute to the creation of outputs. Despite most businesses having outputs, outputs are not necessary for an integrated set of assets and activities to qualify under the definition of business, such as early-stage companies that have not generated revenue.

Elements

Inputs

An economic resource that creates outputs, or has the ability to contribute to the creation of outputs

- Tangible fixed assets
- Right-of-use assets
- Intangible assets
- Intellectual property

Processes

A system that when applied to an input, creates or has an ability to contribute to the creation of outputs

Processes of:

- strategic management
- operation
- resource management

Outputs

The result of applying inputs and processes that provide goods or services to customers, generate investment income or other income from ordinary activities

- Revenue
- Dividend
- Interest income

Three Key Tests to Identify a Business

To determine if the acquired set of activities and assets is a business, three key tests were introduced under the new business definition. The first test is the concentration test, which is an optional simplified assessment. If the condition under the concentration test is **met**, a company can immediately reach the conclusion that the transaction is an asset acquisition. If the test is **not met**, the entity should go through the other two tests, which focus on assessing the existence of relevant skilled workforce and substantive processes.

Concentration Test	Workforce Test	Substantive Process Test
Is substantially all of the fair value of the gross assets acquired concentrated in a single (or group of similar) identifiable asset(s)?	Is there a workforce with skills that are critical for producing or developing into outputs?	Evaluate whether an input and a process together significantly contribute to create outputs

Applying the concentration test may save a lot of work; the most critical and complicated step of the test counts on the identification of the assets acquired

The Concentration Test

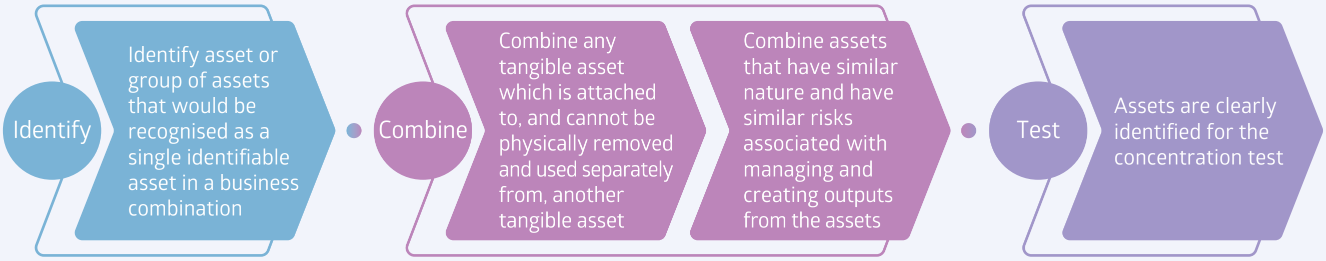
The concentration test is a newly added optional test that permits a simplified assessment for determining when a set of activities and assets is not a business. It reduces the cost and complexity by avoiding the need for a detailed assessment. When substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set of activities and assets would not be considered a business. This test serves as a fast track to determine either an asset acquisition or a business combination.

Fair value of a single identifiable asset or group of similar identifiable assets VS **Fair value of the gross assets acquired**

Determining All Identifiable Assets

In order to conduct the concentration test, all assets acquired shall first be identified. This asset identification would apply the same basis that is used for identifying assets recognised in a business combination. The assets identified may be a single asset or a group of similar assets.

Tangible assets and intangible assets (e.g. a nuclear power plant and a licence to operate it) that are combined for recognition in a business combination would also be considered as a single identifiable asset for the purposes of the concentration test.



Once the acquired assets are clearly identified, the rest of the concentration test should be simple and straight forward

Impact on CLP – Acquisition of Power Projects

For every power project acquisition, CLP shall determine whether the transaction is a business combination or an asset acquisition by applying the definition of business. In the past, the application of the definition was sometimes ambiguous. When a transaction was accounted for as business combination, it may have resulted in the recognition of goodwill (usually because of the recognition of deferred tax liabilities), which was difficult to explain from a commercial perspective, especially when acquiring a single power plant project.

CLP believes that the new business definition, which clarifies current vague areas, narrows down the number of transactions being identified as business, and at the same time coupled with the introduction of the concentration test, it provides a relief to companies by simplifying the assessment.

Usually, a power project would come together with a power purchase agreement (PPA) or a transmission service agreement (TSA). When applying the concentration test, CLP needs to identify assets which are qualified to combine. CLP considers the infrastructure and the PPA or TSA with similar useful lives as a single asset. PPA or TSA is not recognised separately from the infrastructure as an intangible asset as it is more in the nature of an embedded operation licence to the power plant. Therefore, PPA or TSA together with the infrastructure are treated as a single identifiable asset when applying the concentration test.

Below are acquisitions which the new business definition has been applied during the year.

Timing of Transaction	Interest Acquired	Acquiree	Asset Type	Consideration	Key Assets Identified	Substantially All of the Fair Value Concentrated?	Conclusion of the Concentration Test
March 2020	100%	Cleansolar Renewable Energy Private Limited	30 MW Solar Farm	HK$112 million (Rs1,084 million)	Solar plant (with PPA embedded)	Yes	Asset acquisition
April 2020	100%	Divine Solren Private Limited	50 MW Solar Farm	HK$126 million (Rs1,245 million)	Solar plant (with PPA embedded)	Yes	Asset acquisition

pwc

To the Members of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of CLP Holdings Limited (the "Company") and its subsidiaries (the "Group") ("the Group Financial Statements") set out on pages 226 to 296, which comprise:

- the Consolidated Statement of Financial Position as at 31 December 2020;
- the Consolidated Statement of Profit or Loss for the year then ended;
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended; and
- the Significant Accounting Policies, Notes to the Financial Statements and Financial Risk Management.

Our opinion

In our opinion, the Group Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Group Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Group Financial Statements of the current period. These matters were addressed in the context of our audit of the Group Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Unbilled retail revenue;
- Fixed asset accounting and the calculation of the Scheme of Control permitted return;
- Valuation of EnergyAustralia's energy retail business;
- Recoverability of trade receivables;
- Asset retirement obligations; and
- Legal matters.

Key Audit Matter	***How our audit addressed the Key Audit Matter***
Unbilled retail revenue Refer to note 3 to the Group Financial Statements Retail electricity and gas revenues are recognised when electricity and gas are supplied to and consumed by the customers. Revenues are measured on the basis of periodic cycle meter readings and include an estimated accrual for the value of electricity and gas consumed from the meter reading date to the end of the reporting period. Unbilled retail revenue of the Group totalled HK$3,478 million as at 31 December 2020. CLP Power Hong Kong Limited (CLP Power Hong Kong) calculates unbilled retail revenue using estimates including: consumption quantity based on the electricity sent-out adjusted by a loss factor, the pattern of residential and non-residential consumption, the weather and certain other factors. EnergyAustralia Holdings Limited (EnergyAustralia) calculates unbilled retail revenue based on the electricity purchased and the applicable tariffs for the mass market customer segment, as well as the actual meter readings and the contracted rates for commercial and industrial customers. The amount is adjusted for physical energy loss and other measurable factors. This is a Key Audit Matter because the calculation of unbilled retail revenue involves a high degree of estimation.	Our procedures in relation to unbilled retail revenue included: • Understanding the estimates made relating to volumes, loss factors and tariffs used in determining the level of unbilled revenue for both CLP Power Hong Kong and EnergyAustralia; • Obtaining an understanding of and testing the key controls in place to determine the estimate of unbilled retail revenue for both CLP Power Hong Kong and EnergyAustralia; • Assessing the reasonableness of estimates by comparing them against historical trends and against the weighted average tariff for prices; • Testing the volume of electricity sent-out by CLP Power Hong Kong to supporting information; and • Testing the volume of electricity purchased by EnergyAustralia from the wholesale electricity market to the underlying Australian Energy Market Operator invoices on a sample basis and reconciling the total purchase volumes to revenue volumes. Based on the work performed, we found that the Group's unbilled retail revenue amount is supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Fixed asset accounting and the calculation of the Scheme of Control permitted return Refer to notes 10 and 11 to the Group Financial Statements Consolidated fixed assets and right-of-use assets were HK$155.5 billion at 31 December 2020. This includes fixed assets and leasehold land relating to CLP Power Hong Kong and Castle Peak Power Company Limited (CAPCO) (together the SoC Companies) (SoC fixed assets) which are the base used in the calculation of the permitted return under the Scheme of Control (SoC) Agreement. The annual permitted return is 8% of the SoC Companies' average net fixed assets. If the gross tariff revenue in a period is less than or exceeds the total of the SoC operating costs, the permitted return and the taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund (TSF). In any period, the amount of deduction from or addition to the TSF is recognised as a revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss. This is a Key Audit Matter because of the significance of the balance. The accuracy of SoC fixed asset additions, disposals and depreciation charges is important to ensure the SoC fixed asset balance is appropriate and the SoC permitted return is calculated correctly.	Our procedures in relation to the Group's SoC fixed assets and the calculation of the SoC permitted return included: • Assessing the control environment and testing controls over SoC fixed assets additions, disposals and depreciation charges; • Testing the SoC fixed asset additions in the year to supporting evidence on a sample basis and assessing whether the items have been appropriately capitalised; • Validating the estimated useful lives of the SoC fixed assets for compliance with the SoC Agreement; • Testing depreciation charges by performing depreciation reasonableness tests; • Obtaining management's reconciliation of SoC fixed assets from the opening balance at the beginning of the year to the closing balance at the end of the year and reconciling this to the general ledger and supporting records; • Recalculating the SoC permitted return for the year; and • Recalculating the SoC adjustment to revenue for the year. Based on the work performed, we found that the Group's SoC fixed asset accounting and the SoC permitted return calculation are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Valuation of EnergyAustralia's energy retail business Refer to note 13 to the Group Financial Statements EnergyAustralia has goodwill of HK$9,308 million relating to the energy retail business in Australia. The recoverable amount of EnergyAustralia's energy retail business is determined based on a value in use calculation. Cash flow projections are derived from EnergyAustralia's approved business plan and reflect the future cash flows from potential legislative, regulatory and structural changes in the industry. The key assumptions used in the value in use calculation include: the retail tariffs, the electricity and gas volumes, the network distribution costs, the customer account growth rate and the discount rate. When undertaking the value in use calculation of EnergyAustralia's energy retail business at year end, the results indicate that minimal headroom remains. This is a Key Audit Matter because the key assumptions require significant management judgement. Changes in the key assumptions would have a direct impact on the valuation.	Our procedures in relation to management's assessment of the carrying value of EnergyAustralia's energy retail business included: • Assessing the appropriateness of the valuation methodology in the calculation of the recoverable amount; • Reconciling input data to supporting evidence, such as EnergyAustralia's approved business plan; • Considering the accuracy of the prior year forecasts against past results; • Challenging the reasonableness of the key assumptions based on our knowledge of the business and the industry; • Assessing the discount rate used with the involvement of our in-house valuation experts; • Verifying the integrity of formulae and the mathematical accuracy of management's valuation models; • Assessing the potential impact of reasonably possible downside changes in the key assumptions including possible future regulatory policy changes; and • Reviewing the appropriateness of the Group's Financial Statement disclosures. Based on the work performed, we found the carrying value of EnergyAustralia's energy retail business is supported by the available evidence and the key assumptions have been appropriately disclosed in note 13 to the Group Financial Statements.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Recoverability of trade receivables Refer to note 19 to the Group Financial Statements CLP Power Hong Kong and EnergyAustralia have significant retail businesses with many individual customers. The offtakers for the Group's other generation businesses are mainly a small number of state grid operators. The Group measures the loss allowance for its trade receivables at an amount equal to the lifetime expected credit losses. Expected credit losses in CLP Power Hong Kong are close to zero as the trade receivables are mostly secured by cash deposits or bank guarantees from customers and there is limited recent history of default. EnergyAustralia has trade receivables of HK$6,317 million at 31 December 2020 against which provisions for expected credit losses of HK$1,155 million are held. Management estimated the level of expected losses, by assessing future cash flows for each group of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on twelve month rolling historical credit loss experience by customer segment, geographical region, tenure and type of customer and applying them to the receivables held at year end. The impact of economic factors, both current and future, is considered in assessing the likelihood of recovery from customers. As at 31 December 2020, the Group had receivables of HK$1,774 million relating to unpaid Renewable National Subsidies in its Mainland China business. The expected credit loss is close to zero as continuous settlements have been noted with no history of default and the subsidy is funded by the Renewable Energy Development Fund set up and administered by the Ministry of Finance. CLP India Private Limited's (CLP India) renewable projects have trade receivables of HK$771 million of which HK$680 million are past due at 31 December 2020. Management has assessed the recoverability of past due amounts and concluded that the expected credit loss is close to zero as there is no recent history of default and continuous payments are received. This is a Key Audit Matter because of the magnitude of the trade receivables balance and the significant judgement applied in assessing the allowance for expected credit losses.	Our procedures in relation to trade receivables included: • Testing controls over the billing and collection cycles in both CLP Power Hong Kong and EnergyAustralia; • Testing the system calculated trade receivables ageing analysis used to assess the recoverability of receivables in CLP Power Hong Kong and EnergyAustralia; • Assessing the appropriateness of the credit loss provisioning methodologies used by the Group; • Assessing the estimates used to determine the expected credit losses by considering cash collection performance against historical trends and assessing the reasonableness of forward-looking factors included in the expected credit loss model; • Reviewing the accuracy of management's judgements by comparing historical provisions against actual write-offs; • Reviewing minutes of the boards of directors' meetings relating to the recoverability of trade receivables; • Discussion with management to understand the nature and the judgement involved in their determination that the expected credit loss on unpaid Renewable National Subsidies is close to zero, assessing the regulatory eligibility for the Group's projects and considering subsidies collected to-date; and • Discussion with management to understand the nature and the judgement involved in estimating the expected credit loss provision on trade receivables from the state grid operators of CLP India's renewable projects and corroborating with correspondence with the customers. Based on the work performed, we found that management's assessments of the recoverability of trade receivables are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Asset retirement obligations Refer to note 26 to the Group Financial Statements Provisions are held for estimated remediation costs, discounted to present value, where the Group has a legal or constructive obligation for remediation and the likelihood of an economic outflow is probable. Estimating the amount and timing of the obligation requires significant judgement. Management has assessed the Group's obligations for each asset based on the local regulatory environment and expected closure dates. Management's key asset retirement obligations (AROs) judgements are as follows: • The Group's ARO provision of HK$2,704 million mainly relates to land remediation and decommissioning of generation assets in Australia. The provisions are largely based on estimates by external and internal experts that are discounted using internally determined end of plant lives. • CLP Power Hong Kong expects that its transmission and distribution network will continue to be used for the distribution of electricity supply to its customers and considers it remote that the network will be removed from the existing land sites. Therefore, AROs have not been recognised for transmission and distribution assets. • CAPCO will retire the coal-fired generation units at Castle Peak A Station (CPA) between 2022 to 2025. Management considers that the dismantling obligation for the CPA units is covered by the asset decommissioning liability accrued under the SoC as at 31 December 2020. • No provision for AROs has been recognised for the other generation units of CAPCO as the removal of CAPCO's other fossil-fuel generation units is possible and it is expected that should such obligation be incurred, it will be met by the liability accrued and the cost recovery mechanism under the SoC. This is a Key Audit Matter because significant judgement is required in determining whether an ARO exists, and estimating the amount and timing of the obligation.	Our procedures in relation to AROs included: • Assessing the appropriateness of the Group's accounting policy; • Evaluating management's judgement that it is remote that the Hong Kong transmission and distribution network would be removed from the existing land sites; it is probable that the CPA units will be removed; and it is possible that CAPCO's other fossil-fuel generation units may be removed at some point in time in the future; • Assessing management's judgements as to whether a contractual or constructive obligation exists based on the respective power purchase agreements, lease agreements, local laws and regulations and past practice; • Assessing the independence, objectivity and competence of management's experts involved in respect of the future cost estimates for those assets where a provision has been recognised; and • Testing the appropriateness of management's estimates of future costs, the timing of payments and the discount rates where management has concluded that a legal or constructive obligation exists. Based on the work performed, we found that the ARO provisions are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*

Legal matters

Refer to note 33 to the Group Financial Statements

The Group is exposed to the risk of litigation, regulatory judgments and contractual disputes in the course of its normal operations. Provisions are recognised when management considers the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where management considers it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

EnergyAustralia disposed of its entire interest in the Iona Gas Plant for a total consideration of A$1,780 million (HK$9,991 million) in December 2015. On 19 May 2017, EnergyAustralia received a Statement of Claim issued by Lochard Energy (Iona Operations Holding) Pty Ltd, the purchaser of the Iona Gas Plant, and certain related entities (together "the plaintiff"), commencing formal legal proceedings seeking damages (the Iona legal claim).

In February 2021 the plaintiff has indicated that it now estimates: (a) its original claim to be in the range of A$457 million to A$1,449 million (approximately HK$2,719 million to HK$8,622 million); and (b) its alternative claim to be in the range of A$289 million to A$370 million (approximately HK$1,720 million to HK$2,202 million).

EnergyAustralia has rejected the claim and is defending the legal proceedings. On the basis of currently available information, the Directors' view is that a material outflow of economic benefits is unlikely and no provision has been made in the Group Financial Statements.

This is a Key Audit Matter because significant management judgement has been required, based on external legal advice to conclude that no provision is required in the Group Financial Statements in relation to the Iona legal claim.

Our procedures on management's assessment of legal matters included:

- Assessing the processes and entity level controls over identifying and monitoring legal matters;
- Reviewing the Iona legal claim and other contractual claims;
- Discussing with management any material developments and the latest status of the Iona legal claim;
- Reviewing the minutes of boards of directors' meetings in respect of discussions relating to the Iona legal claim;
- Obtaining written confirmation from external legal counsel on the status of the Iona legal claim;
- Reviewing written correspondence from both external and internal legal counsel documenting the status of the Iona legal claim;
- Considering management's assessment of those legal matters that are not provided and/or disclosed as the probability of material outflow is considered to be not probable for provisioning or remote for disclosure; and
- Reviewing the appropriateness of the Group's Financial Statement disclosures.

Based on the work performed, we found management's measurement and disclosures are supported by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the Group Financial Statements and our auditor's report thereon.

Our opinion on the Group Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit & Risk Committee for the Group Financial Statements

The directors of the Company are responsible for the preparation of the Group Financial Statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of Group Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group Financial Statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit & Risk Committee is responsible for overseeing the Group's financial reporting process on behalf of the Board of Directors.

Auditor's Responsibilities for the Audit of the Group Financial Statements

Our objectives are to obtain reasonable assurance about whether the Group Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group Financial Statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Group Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Group Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group Financial Statements, including the disclosures, and whether the Group Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit & Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit & Risk Committee, we determine those matters that were of most significance in the audit of the Group Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sean William Tuckfield.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 22 February 2021

Consolidated Statement of Profit or Loss

for the year ended 31 December 2020

	Note	2020 HK$M	2019 HK$M
Revenue	3	**79,590**	85,689
Expenses			
Purchases of electricity, gas and distribution services		**(27,183)**	(32,967)
Staff expenses		**(4,844)**	(4,535)
Fuel and other operating expenses		**(24,371)**	(26,039)
Depreciation and amortisation		**(8,476)**	(8,118)
		(64,874)	(71,659)
Other charge	5	**–**	(6,381)
Operating profit	5	**14,716**	7,649
Finance costs	6	**(1,873)**	(1,983)
Finance income	6	**136**	162
Share of results, net of income tax			
Joint ventures	14	**797**	885
Associates	15	**1,725**	1,828
Profit before income tax		**15,501**	8,541
Income tax expense	7	**(2,993)**	(2,787)
Profit for the year		**12,508**	5,754
Earnings attributable to:			
Shareholders		**11,456**	4,657
Perpetual capital securities holders		**138**	212
Other non-controlling interests		**914**	885
		12,508	5,754
Earnings per share, basic and diluted	9	**HK$4.53**	HK$1.84

The notes and disclosures on pages 232 to 296 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2020

	2020 HK$M	2019 HK$M
Profit for the year	**12,508**	5,754
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	**3,651**	(936)
Cash flow hedges	**(820)**	423
Costs of hedging	**153**	10
Share of other comprehensive income of joint ventures	**2**	1
	2,986	(502)
Items that cannot be reclassified to profit or loss		
Fair value (losses) / gains on investments	**(58)**	31
Remeasurement losses on defined benefit plans	**(5)**	(4)
	(63)	27
Other comprehensive income for the year, net of tax	**2,923**	(475)
Total comprehensive income for the year	**15,431**	5,279
Total comprehensive income attributable to:		
Shareholders	**14,527**	4,263
Perpetual capital securities holders	**138**	212
Other non-controlling interests	**766**	804
	15,431	5,279

This statement of profit or loss and other comprehensive income includes not only the conventional profit for the year, but also "other comprehensive income". Further details of other comprehensive income attributable to shareholders are presented in Note 28.

The notes and disclosures on pages 232 to 296 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2020

	Note	2020 HK$M	2019 HK$M
Non-current assets			
Fixed assets	*10*	**148,454**	143,615
Right-of-use assets	*11*	**7,061**	6,050
Investment property	*12*	**1,000**	1,121
Goodwill and other intangible assets	*13*	**20,559**	20,111
Interests in and loans to joint ventures	*14*	**11,017**	9,999
Interests in associates	*15*	**9,181**	8,708
Deferred tax assets	*24*	**571**	524
Derivative financial instruments	*16*	**1,697**	1,389
Other non-current assets	*17*	**1,300**	1,280
		200,840	192,797
Current assets			
Inventories – stores and fuel		**2,872**	2,510
Renewable energy certificates		**1,019**	996
Property under development	*18*	**2,976**	2,973
Trade and other receivables	*19*	**13,002**	12,986
Derivative financial instruments	*16*	**1,816**	1,035
Short-term deposits and restricted cash	*20*	**1,550**	445
Cash and cash equivalents	*20*	**10,158**	7,881
		33,393	28,826
Current liabilities			
Customers' deposits	*19(a)*	**(5,908)**	(5,679)
Fuel clause account	*21*	**(346)**	(1,131)
Trade payables and other liabilities	*22*	**(18,141)**	(17,586)
Income tax payable		**(1,699)**	(1,522)
Bank loans and other borrowings	*23*	**(8,747)**	(13,551)
Derivative financial instruments	*16*	**(1,166)**	(993)
		(36,007)	(40,462)
Net current liabilities		**(2,614)**	(11,636)
Total assets less current liabilities		**198,226**	181,161

	Note	2020 HK$M	2019 HK$M
Financed by:			
Equity			
Share capital	*27*	**23,243**	23,243
Reserves	*28*	**88,957**	82,212
Shareholders' funds		**112,200**	105,455
Perpetual capital securities	*29*	**3,887**	3,887
Other non-controlling interests	*29*	**9,885**	9,987
		125,972	119,329
Non-current liabilities			
Bank loans and other borrowings	*23*	**45,601**	38,798
Deferred tax liabilities	*24*	**15,429**	15,117
Derivative financial instruments	*16*	**2,135**	1,305
Scheme of Control (SoC) reserve accounts	*25*	**2,374**	1,500
Asset decommissioning liabilities and retirement obligations	*26*	**3,963**	3,513
Other non-current liabilities		**2,752**	1,599
		72,254	61,832
Equity and non-current liabilities		**198,226**	181,161

The Company's statement of financial position is presented in Note 34.

The Honourable Sir Michael Kadoorie
Chairman
Hong Kong, 22 February 2021

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

The notes and disclosures on pages 232 to 296 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

	Attributable to Shareholders			Perpetual	Other Non-	
	Share Capital HK$M	Reserves HK$M	Total HK$M	Capital Securities HK$M	controlling Interests HK$M	Total Equity HK$M
Balance at 1 January 2019	23,243	85,810	109,053	5,791	10,088	124,932
Profit for the year	–	4,657	4,657	212	885	5,754
Other comprehensive income for the year	–	(394)	(394)	–	(81)	(475)
Transfer to fixed assets	–	1	1	–	–	1
Dividends paid						
2018 fourth interim	–	(3,007)	(3,007)	–	–	(3,007)
2019 first to third interim	–	(4,775)	(4,775)	–	–	(4,775)
Acquisition of non-controlling interests	–	10	10	–	(96)	(86)
Distributions to perpetual capital securities holders	–	–	–	(212)	–	(212)
Dividends paid to other non-controlling interests	–	–	–	–	(809)	(809)
Reclassification to other borrowings	–	(90)	(90)	(5,791)	–	(5,881)
Issue of perpetual capital securities	–	–	–	3,887	–	3,887
Balance at 31 December 2019	23,243	82,212	105,455	3,887	9,987	119,329
Balance at 1 January 2020	23,243	82,212	105,455	3,887	9,987	119,329
Profit for the year	–	11,456	11,456	138	914	12,508
Other comprehensive income for the year	–	3,071	3,071	–	(148)	2,923
Dividends paid						
2019 fourth interim	–	(3,007)	(3,007)	–	–	(3,007)
2020 first to third interim	–	(4,775)	(4,775)	–	–	(4,775)
Distributions to perpetual capital securities holders	–	–	–	(138)	–	(138)
Dividends paid to other non-controlling interests	–	–	–	–	(868)	(868)
Balance at 31 December 2020	**23,243**	**88,957**	**112,200**	**3,887**	**9,885**	**125,972**

The notes and disclosures on pages 232 to 296 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2020

	Note	2020 HK$M	2020 HK$M	2019 HK$M	2019 HK$M
Operating activities					
Net cash inflow from operations	*30(A)*	**24,418**		23,502	
Interest received		**138**		165	
Income tax paid		**(2,182)**		(2,322)	
Net cash inflow from operating activities			**22,374**		21,345
Investing activities					
Capital expenditure		**(10,586)**		(10,448)	
Capitalised interest and other finance costs paid		**(324)**		(307)	
Proceeds from disposal of fixed assets		**220**		45	
Additions of other intangible assets		**(451)**		(775)	
Acquisitions of subsidiaries		**(196)**		(130)	
Increase in other financial assets		**(74)**		(121)	
Investments in and loans to joint ventures		**(458)**		(70)	
Proceeds from disposal / partial disposal of interest in a joint venture		**208**		44	
Investment in an associate		**–**		(352)	
Dividends received from					
Joint ventures		**578**		453	
Associates		**1,742**		1,653	
Equity investments		**13**		13	
(Increase) / decrease in bank deposits with maturities of more than three months		**(753)**		4,171	
Net cash outflow from investing activities			**(10,081)**		(5,824)
Net cash inflow before financing activities			**12,293**		15,521
Financing activities	*30(B)*				
Proceeds from long-term borrowings		**14,004**		6,410	
Repayment of long-term borrowings		**(12,309)**		(8,796)	
Redemption of perpetual capital securities		**–**		(5,874)	
Decrease in short-term borrowings		**(959)**		(968)	
Payment of principal portion of lease liabilities		**(200)**		(126)	
Interest and other finance costs paid		**(1,820)**		(1,771)	
Settlement of derivative financial instruments		**149**		(50)	
Decrease in advances from other non-controlling interests		**(323)**		(178)	
Issue of perpetual capital securities		**–**		3,887	
Distributions paid to perpetual capital securities holders		**(103)**		(250)	
Dividends paid to shareholders		**(7,782)**		(7,782)	
Dividends paid to other non-controlling interests		**(868)**		(809)	
Payment for acquisition of non-controlling interests		**–**		(86)	
Proceeds from disposal of interest in a subsidiary without loss of control		**–**		1,449	
Net cash outflow from financing activities			**(10,211)**		(14,944)
Net increase in cash and cash equivalents			**2,082**		577
Cash and cash equivalents at beginning of year			**7,881**		7,365
Effect of exchange rate changes			**195**		(61)
Cash and cash equivalents at end of year	*20*		**10,158**		7,881

The notes and disclosures on pages 232 to 296 are an integral part of these consolidated financial statements.

Significant Accounting Policies

Significant accounting policies are included in the corresponding notes to the financial statements or set out below.

1. Basis of Preparation

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and requirements of the Hong Kong Companies Ordinance (Cap.622). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) and investment property which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are especially significant to the consolidated financial statements, are disclosed in relevant notes to the financial statements.

2. Changes in Accounting Policies

(A) Amendments of standards first time adopted in 2020

There have been a number of amendments to standards effective from 1 January 2020. Amendments which are applicable to the Group include:

- The Conceptual Framework for Financial Reporting 2018
- Amendments to HKAS 1 and HKAS 8 Definition of Material
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform – Phase 1 (the Reform – Phase 1)

In addition, the Group has elected to early adopt the amendments to HKFRS 16 Leases on COVID-19 Related Rent Concessions on 1 January 2020. The amendments to HKFRS 16 allow the Group as a lessee not to account for COVID-19 directly related rent concessions as lease modifications when certain criteria are met. These amendments are effective for annual reporting periods beginning on or after 1 June 2020.

The Group applied these amendments for the first time in 2020. The impact of these amendments to the Group is immaterial. The Group does not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments.

Details on the impact of the Reform – Phase 1 can be found in paragraph (C) below.

(B) Amendments to standards effective after 2020

The following amendments to standards, which may be applicable to the Group, have been issued and are effective after 2020. The Group has not elected to early adopt these amendments in 2020. The adoption of these amendments is not expected to have any significant impact on the results or the financial position of the Group.

- Amendments to HKFRS 3 Reference to the Conceptual Framework
- Amendments to HKFRS 9 Fees in the '10 per cent' Test for Derecognition of Financial Liabilities
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2
- Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to HKAS 1 Classification of Liabilities as Current or Non-current
- Amendments to HKAS 16 Proceeds before Intended Use
- Amendments to HKAS 37 Onerous Contracts – Cost of Fulfilling a Contract

2. Changes in Accounting Policies (continued)

(C) Interest Rate Benchmark Reform

A number of concerns were raised regarding the integrity and reliability of major financial market benchmarks, particularly interest rate benchmarks that are considered to play the most fundamental role in the global financial system. In 2014, the Financial Stability Board published a report setting out recommendations to reform some major benchmarks. The global reform of interest rate benchmarks, which includes the replacement of some Interbank offered rates (IBOR) with alternative benchmark rates, is referred to as the interest rate benchmark reform. The Reform aims to have these new rates based on liquid underlying market transactions, and not be dependent on submissions based on expert judgement.

Phase 1 – The first phase of amendments to HKFRS 9, HKAS 39 and HKFRS 7, issued in November 2019, focuses on hedge accounting in the period before the Reform. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the Reform. The reliefs have the effect that the Reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. The amendments are effective from 1 January 2020 and are mandatory for all hedge relationships directly affected by the Reform.

Phase 2 – The second phase of amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, issued in October 2020, focuses on the financial reporting issues that may arise once an existing IBOR is replaced with an alternative interest rate. These amendments adjust specific accounting requirements relating to modifications of financial instruments and lease liabilities, other reliefs for hedge accounting and disclosures. The amendments are effective from 1 January 2021 with earlier application permitted. Hedging relationships previously discontinued solely because of changes resulting from the Reform will be reinstated if certain conditions are met.

As a result of an ongoing reform of the interest rate reference benchmark and its replacement with a risk-free alternative interest rate, the Group has established a project team to manage the transition for any of its contracts that could be affected.

At 31 December 2020, the Group's assessment of primary exposure to the Reform is related to the debt related cash flow and fair value hedges with cross currency interest rate swaps and/or interest rate swaps based on hedged risk of US dollar London Interbank Offered Rate (LIBOR). There remain many uncertainties associated with the Reform. It is not known when hedged items and hedging instruments will be amended to alternative interest rates, or how this will change the fair values and cash flows on these instruments, which cast uncertainty on the prospective assessment of the effectiveness of hedge accounting. Therefore, in assessing the hedge effectiveness requirements on a forward-looking basis, the Group has assumed that US dollar LIBOR interest rates are not altered by the Reform and has not discontinued the hedges. The Group will continue to apply the first phase of amendments to deal with pre-replacement issues until the end of uncertainty arising from the Reform with respect to the timing and amount of the underlying cash flow and fair value that the Group is exposed. The Group has assumed that this uncertainty will not end until the Group's contracts and hedge documentations that reference IBORs are amended to specify the date on which it will be replaced, the cash flows of the alternative interest rate and the relevant spread adjustment. This will, in part, be dependent on the introduction or amendment of fallback clauses which have yet to be added or amended to the Group's contracts and the negotiation with counterparties.

The outstanding interest rate swaps and cross currency interest rate swaps of an aggregate notional amount of HK$7,019 million equivalent are impacted by the Reform. 88% of these will mature after 2021 when US dollar LIBOR might be discontinued.

3. Consolidation and Equity Accounting

(A) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries up to 31 December and include the Group's interests in joint ventures and associates on the basis set out in (B) below.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of subsidiaries acquired during the year are included in the consolidated financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, to ensure consistency with the policies adopted by the Group, adjustments are made to the financial statements of subsidiaries, joint ventures and associates.

(B) Joint ventures and associates

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity over which the Group has significant influence but not control nor joint control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint ventures/associates are accounted for using the equity method. They are initially recognised at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of post-acquisition profit or loss and other comprehensive income, until the date on which joint control or significant influence ceases. Distributions received from an investee reduce the carrying amounts of the investments.

(C) Joint operations

A joint operation is an arrangement in which the Group has joint control (as explained in (B) above), whereby the Group has rights to the assets and obligations for the liabilities, relating to the arrangement. When the Group undertakes its activities under a joint operation, the Group as a joint operator recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of the joint operation. They are incorporated in the financial statements under appropriate headings.

(D) Change in ownership interests

Transactions with non-controlling interests that do not result in a loss of control are treated as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received, and the reattribution of other comprehensive income to non-controlling interests are recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purpose of subsequent accounting for the retained interest as a joint venture, associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are reclassified to profit or loss. Gains or losses on disposals are recognised in profit or loss.

3. Consolidation and Equity Accounting (continued)

(D) Change in ownership interests (continued)

If the ownership interest in a joint venture or associate is reduced, it is possible that joint control or significant influence is retained or a joint venture becomes an associate. As the Group continues to apply the equity method under both cases, the retained interest is not remeasured. However, a proportionate share of the amounts previously recognised in other comprehensive income of the investment is reclassified to profit or loss where appropriate.

A quick guide to the classification of equity investments:

Control → Subsidiary
Joint control → Joint venture / joint operation
Significant influence → Associate
Less than significant influence → Equity investment

4. Impairment of Non-Financial Assets

Non-financial assets that have indefinite useful lives are not subject to amortisation. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and, in any case, at least annually. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units (CGUs)). Goodwill arising from a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. An impairment loss is recognised for the amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset or a CGU less costs of disposal and its value in use.

An impairment loss recognised in prior years for an asset other than goodwill shall be reversed if, and only if, there is a favourable change in the estimates used to determine the recoverable amount of an asset. A reversal of the impairment loss is limited to the asset's carrying amount (net of accumulated amortisation or depreciation) that would have been determined had no impairment loss been recognised in prior years.

5. Inventory

Inventory comprises stores and fuel and is stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

6. Renewable Energy Products

Renewable energy and energy efficiency schemes operate through the creation, trade and surrender of energy products. Renewable energy certificates are recognised upon the risks and rewards being transferred to the Group and are measured at the lower of cost or net realisable value. Cost is calculated on a weighted average basis.

7. Employee Benefits

(A) Defined contribution obligations

The Group operates and / or participates in a number of defined contribution plans. The assets of these plans are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans. The Group has no further legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

7. Employee Benefits (continued)

(A) Defined contribution obligations (continued)

Forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) are not used to offset existing contributions but are credited to a reserve account of that provident fund, and are available for distribution at the discretion of the relevant employers.

Contributions to the defined contribution plans are recognised as expenses in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

(B) Defined benefit obligations

The Group operates defined benefit pension plans in Australia and India. Under the plans, the employees are entitled to lump sum benefits on retirement, death, disablement and withdrawal. The level of benefits provided depends on employees' years of service and final average salary. Plan assets held in trusts are governed by local regulations and practice in each country.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Past service costs are recognised immediately in profit or loss. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income.

(C) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the end of the reporting period, where there is a contractual obligation or past practice that has created a constructive obligation.

8. Foreign Currency Translation

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Hong Kong dollar, which is the Group's presentation currency.

Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies by using the exchange rates at the end of the reporting period are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, joint ventures and associates that have a functional currency different from the Group's presentation currency for the purpose of consolidation, assets and liabilities for each statement of financial position presented are translated using the closing rates at the end of the reporting period; and income and expenses for each statement of profit or loss and other comprehensive income presented are translated at the average exchange rates for the reporting period (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity. Reclassifications of gains or losses previously recognised in other comprehensive income to profit or loss are translated by using the exchange rate at the date of reclassification. The remaining reserve balances are translated using the closing rates at the end of the reporting period. Any exchange differences arising from these are taken to retained profits directly.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated using the closing rates at the end of the reporting period.

Upon disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary/loss of joint control over a joint venture/loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

8. Foreign Currency Translation (continued)

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and is not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in a joint venture or associate that do not result in the Group losing joint control or significant influence) the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Monetary assets and liabilities are assets to be received and liabilities to be paid in fixed amounts. For example, a trade receivable is a monetary asset (the amount to be received is fixed) but a fixed asset is not a monetary asset because it is uncertain how much you will receive if the fixed asset is sold.

An entity can have both functional currency and presentation currency, however, a consolidation group can only have presentation currency but not functional currency. This is because presentation currency is a matter of choice but functional currency is based on the different primary economic environment in which each group entity operates.

9. Leases

The Group assesses at contract inception whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. A contract conveys the right to control the use of an identified asset if the customer has both the right to obtain substantially all the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

For the Group as a lessor, leases in which the Group does not transfer substantially all the risks and rewards incidental to the ownership of an underlying asset to the customer, are classified as operating lease arrangements. The respective lease assets are included in the financial statements according to their nature. Operating lease payments which vary with operation parameters are recognised as other revenue in the period in which they are earned.

For the Group as a lessee, the Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets which are recognised as expenses on a straight-line basis over the lease terms. The Group recognises lease liabilities representing the obligation to make lease payments and right-of-use assets representing the right to use the underlying assets.

1. General Information

The Company is a limited liability company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong. The principal activity of the Company is investment holding, and the principal activities of the subsidiaries are generation and supply of electricity in Hong Kong, Mainland China, India and Australia, and investment holding of power projects in Mainland China, Southeast Asia and Taiwan.

The financial operations of the Company's major subsidiaries, CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO) (collectively referred to as SoC Companies), are governed by a SoC Agreement entered into with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The main features of the current SoC are summarised on pages 297 and 298, which are unaudited.

These financial statements were approved for issue by the Board of Directors on 22 February 2021.

2. The Impact of COVID-19 in the Current Reporting Year

The outbreak of COVID-19 has developed rapidly in 2020 and significantly affected entities and economic activities in varying scales globally. While there have been more immediate and pronounced disruptions in certain industries, its impact on the energy industry in the countries where we operate has been rather modest during the current reporting year. Nevertheless, as COVID-19 continues to evolve, it is challenging at this juncture to predict the full extent and duration of its impact to the business and the economy. Up to the date of this report, management has not identified any areas that could have a material impact on the financial performance or position of the Group as at 31 December 2020.

3. Revenue

Accounting Policy

(A) Revenue from contracts with customers

Revenues from sales of electricity and gas are recognised when electricity and gas are supplied to and consumed by the customers. Revenues are measured at the amounts billed to the customers based on the periodic cycle meter readings and the estimated accruals for the value of electricity and gas consumed from the meter reading date to the end of the reporting period ("unbilled revenue").

(B) Other revenue

Revenue from power purchase agreements represents operating lease income comprising capacity charge and energy charge. Capacity charge is recognised to the extent that capacity has been made available to the offtakers during the year. Energy charge is recognised when electricity is supplied.

Critical Accounting Estimates and Judgements: Unbilled Retail Revenue

The Group records revenues from retail and wholesale energy sales using the accrual accounting method. In Hong Kong, the unbilled retail revenue is calculated using estimates including consumption quantity based on electricity sent-out adjusted by loss factor, pattern of residential and non-residential consumption, weather and certain other factors. In Australia, the unbilled retail revenue is calculated based on the electricity purchased and applicable tariffs for the mass market customers, as well as actual meter readings and contracted rates for commercial and industrial customers. The amount is adjusted for physical energy loss and other measurable factors. Unbilled retail revenue of the Group (included in trade and other receivables) totalled HK$3,478 million at 31 December 2020 (2019: HK$3,459 million).

3. Revenue (continued)

The Group's revenue primarily represents sales of electricity and gas, which is recognised over time, and is disaggregated as follows:

	2020 HK$M	2019 HK$M
Revenue from contracts with customers		
Sales of electricity in Hong Kong	**41,798**	40,473
Transfer for SoC from revenue (Note 25(A))	**(660)**	(714)
SoC sales of electricity	**41,138**	39,759
Sales of electricity outside Hong Kong	**29,747**	35,801
Sales of gas in Australia	**5,077**	5,445
Others	**811**	995
	76,773	82,000
Other revenue		
Power purchase agreements (note)		
Fixed capacity charge	**607**	748
Variable capacity charge	**284**	308
Energy charge	**1,587**	2,319
Others	**339**	314
	2,817	3,689
	79,590	85,689

Note: Revenue from power purchase agreements (PPAs) relate to 25-year offtake contracts between Jhajjar Power Limited (JPL) and its offtakers. PPAs are accounted for as operating leases with contract prices mainly comprising capacity and energy charges. Certain capacity charge is considered as in-substance fixed payment as it is payable for maintaining availability of the plant for the dispatch of electricity. Energy charge varies according to the amount of fuel consumed in the production of electricity.

The following table sets out a maturity analysis of lease payments, showing the total undiscounted fixed capacity charge to be received by Jhajjar's PPAs after the reporting date:

	2020 HK$M	2019 HK$M
Within one year	**597**	633
Between one and two years	**426**	615
Between two and three years	**422**	439
Between three and four years	**415**	435
Between four and five years	**410**	428
Over five years	**4,115**	4,661
	6,385	7,211

4. Segment Information

Accounting Policy

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is the chief operating decision-maker of the Group. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions.

Segment revenue is based on the geographical region in which the electricity is generated and/or services are rendered. Segment capital additions represent the total costs incurred during the year to acquire fixed assets and other segment assets that are expected to be used for more than one year. Unallocated items comprise mainly corporate expenses, corporate assets, and the Company's liquid funds and borrowings.

The Group operates, through its subsidiaries, joint ventures and associates, in five major geographical regions – Hong Kong, Mainland China, India, Southeast Asia and Taiwan, and Australia. The operating segments are based on geographical regions. Substantially all the principal activities of the Group in each region are for the generation and supply of electricity which are managed and operated on an integrated basis.

4. Segment Information (continued)

Information about the Group's operations by geographical region is as follows:

	Hong Kong HK$M	Mainland China HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Australia HK$M	Unallocated Items HK$M	Total HK$M
For the year ended 31 December 2020							
Revenue from contracts with customers	41,776	1,672	1,054	6	32,265	–	76,773
Other revenue	117	36	2,562	–	92	10	2,817
Revenue	41,893	1,708	3,616	6	32,357	10	79,590
EBITDAF	16,288	1,590	1,481	(13)	4,117	(731)	22,732
Share of results, net of income tax							
Joint ventures	(19)	493	–	399	(76)	–	797
Associates	–	1,725	–	–	–	–	1,725
Consolidated EBITDAF	16,269	3,808	1,481	386	4,041	(731)	25,254
Depreciation and amortisation	(5,082)	(747)	(597)	–	(2,000)	(50)	(8,476)
Fair value adjustments	20	–	–	–	440	–	460
Finance costs	(1,012)	(255)	(486)	–	(110)	(10)	(1,873)
Finance income	16	18	46	–	22	34	136
Profit / (loss) before income tax	10,211	2,824	444	386	2,393	(757)	15,501
Income tax expense	(1,870)	(314)	(106)	–	(703)	–	(2,993)
Profit / (loss) for the year	8,341	2,510	338	386	1,690	(757)	12,508
Earnings attributable to							
Perpetual capital securities holders	(138)	–	–	–	–	–	(138)
Other non-controlling interests	(744)	(7)	(163)	–	–	–	(914)
Earnings / (loss) attributable to shareholders	7,459	2,503	175	386	1,690	(757)	11,456
Excluding: Items affecting comparability	121	–	–	–	–	–	121
Operating earnings	7,580	2,503	175	386	1,690	(757)	11,577
Capital additions	8,322	238	42	–	3,649	117	12,368
Impairment provisions							
Fixed assets	–	–	68	–	–	–	68
Goodwill	–	–	12	–	–	–	12
Receivables and others	19	–	10	–	490	–	519
At 31 December 2020							
Fixed assets, right-of-use assets and investment property	121,874	9,375	10,118	–	14,917	231	156,515
Goodwill and other intangible assets	5,545	3,936	14	–	11,064	–	20,559
Interests in and loans to joint ventures	693	8,104	–	2,220	–	–	11,017
Interests in associates	–	9,181	–	–	–	–	9,181
Deferred tax assets	3	88	20	–	460	–	571
Other assets	10,337	3,699	4,316	40	14,147	3,851	36,390
Total assets	138,452	34,383	14,468	2,260	40,588	4,082	234,233
Bank loans and other borrowings	43,257	5,769	5,322	–	–	–	54,348
Current and deferred tax liabilities	15,515	1,204	305	–	104	–	17,128
Other liabilities	22,886	1,016	460	2	11,940	481	36,785
Total liabilities	81,658	7,989	6,087	2	12,044	481	108,261

EBITDAF stands for earnings before interest, taxes, depreciation and amortisation, and fair value adjustments. For this purpose, fair value adjustments include fair value gains or losses on derivative financial instruments relating to transactions not qualifying for hedge accounting and ineffectiveness of cash flow hedges.

Our investments in Mainland China are mainly through joint ventures and associates, whereby under equity method of accounting, CLP shares its proportionate earnings but not the revenues and expenses.

4. Segment Information (continued)

	Hong Kong HK$M	Mainland China HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Australia HK$M	Unallocated Items HK$M	Total HK$M
For the year ended 31 December 2019							
Revenue from contracts with customers	40,457	1,629	1,217	11	38,686	–	82,000
Other revenue	131	45	3,434	–	66	13	3,689
Revenue	40,588	1,674	4,651	11	38,752	13	85,689
EBITDAF	15,743	1,405	1,657	6	(2,166)	(702)	15,943
Share of results, net of income tax							
Joint ventures	(18)	558	–	329	16	–	885
Associates	–	1,828	–	–	–	–	1,828
Consolidated EBITDAF	15,725	3,791	1,657	335	(2,150)	(702)	18,656
Depreciation and amortisation	(4,821)	(735)	(626)	–	(1,900)	(36)	(8,118)
Fair value adjustments	(5)	–	–	–	(171)	–	(176)
Finance costs	(1,014)	(276)	(520)	–	(109)	(64)	(1,983)
Finance income	1	28	62	–	49	22	162
Profit / (loss) before income tax	9,886	2,808	573	335	(4,281)	(780)	8,541
Income tax expense	(1,798)	(305)	(150)	–	(534)	–	(2,787)
Profit / (loss) for the year	8,088	2,503	423	335	(4,815)	(780)	5,754
Earnings attributable to							
Perpetual capital securities holders	(212)	–	–	–	–	–	(212)
Other non-controlling interests	(710)	(15)	(160)	–	–	–	(885)
Earnings / (loss) attributable to shareholders	7,166	2,488	263	335	(4,815)	(780)	4,657
Excluding: Items affecting comparability	83	–	–	–	6,381	–	6,464
Operating earnings	7,249	2,488	263	335	1,566	(780)	11,121
Capital additions	9,046	345	52	–	1,894	53	11,390
Impairment provisions							
Fixed assets	–	–	–	–	7	–	7
Goodwill	–	–	–	–	6,381	–	6,381
Receivables and others	4	–	36	–	354	–	394
At 31 December 2019							
Fixed assets, rights-of-use assets and investment property	119,272	9,021	10,454	–	11,873	166	150,786
Goodwill and other intangible assets	5,545	4,199	27	–	10,340	–	20,111
Interests in and loan to joint ventures	162	7,767	–	1,958	112	–	9,999
Interests in associates	–	8,708	–	–	–	–	8,708
Deferred tax assets	–	92	39	–	393	–	524
Other assets	8,099	3,252	3,951	41	12,163	3,989	31,495
Total assets	133,078	33,039	14,471	1,999	34,881	4,155	221,623
Bank loans and other borrowings	41,171	5,777	5,401	–	–	–	52,349
Current and deferred tax liabilities	15,150	1,214	267	–	8	–	16,639
Other liabilities	21,801	1,090	490	2	9,477	446	33,306
Total liabilities	78,122	8,081	6,158	2	9,485	446	102,294

Items affecting comparability refer to significant unusual events such as acquisition / disposal, impairment of non-current assets, property valuation gain / loss, provision for legal disputes and change in law or natural catastrophe. They have no impact in assessing the underlying operating performance of the Group and are separately disclosed to allow a better understanding and comparison of the financial results. Details of the items affecting comparability can be found on page 34.

5. Operating Profit

Operating profit is stated after charging / (crediting) the following:

	2020 HK$M	2019 HK$M
Charging		
Retirement benefits costs [a]	**462**	451
Auditors' remuneration		
Audit services		
PricewaterhouseCoopers	**39**	39
Other auditor [b]	**2**	2
Permissible audit related and non-audit services		
PricewaterhouseCoopers [c]	**11**	9
Other auditor [b]	**–**	–
Variable lease payments expenses	**10**	67
Net loss on disposal of fixed assets	**358**	424
Impairment of		
Fixed assets	**68**	7
Goodwill [d]	**12**	6,381
Inventories – stores and fuel	**8**	11
Trade receivables	**511**	383
Revaluation loss on investment property	**121**	83
Net fair value losses / (gains) on non-debt related derivative financial instruments		
Cash flow hedge		
Reclassified from cash flow hedge reserve and cost of hedging reserve to		
Purchases of electricity, gas and distribution services	**66**	(53)
Fuel and other operating expenses	**196**	(162)
Ineffectiveness of cash flow hedge	**(2)**	7
Not qualified for hedge accounting	**(579)**	292
Crediting		
Rental income from investment property	**(26)**	(35)
Dividends from equity investments	**(13)**	(13)
Net exchange (gain) / loss	**(102)**	33

Notes:

(a) Retirement benefits costs for the year amounted to HK$606 million (2019: HK$593 million), of which HK$144 million (2019: HK$142 million) was capitalised.

(b) KPMG India has been the statutory auditor of CLP India Private Limited (CLP India) and its subsidiaries (CLP India group) since April 2017. The Group does not regard KPMG India as a principal auditor of the Group given the relative small quantum of the audit fees, which reflect the scale of operation of CLP India group. Our policy with regard to non-principal auditors for providing non-audit services is to ensure that, within country, the non-audit fees are not paid out of proportion to the audit fees so as to compromise in-country independence. The figure of audit related and non-audit services represented KPMG India's fees charged to CLP India group. Other KPMG offices have also provided services to our businesses in other regions which amounted to HK$16 million during the year (2019: HK$16 million).

(c) Permissible audit related and non-audit services provided by PricewaterhouseCoopers comprised Sustainability Report assurance, Continuing Connected Transactions limited assurance, limited assurance over EnergyAustralia's regulatory reviews and reporting, audits of CLP's provident funds, auditor's attestation and other advisory services.

(d) In 2019, the Default Market Offer and Victorian Default Offer (collectively the "default offers") in Australia impacted the energy retail CGU of EnergyAustralia Holdings Limited (EnergyAustralia) by lowering gross margin and resetting the market baseline for market offers. As a result, the goodwill included in the energy retail CGU was impaired and a loss of HK$6,381 million was recognised as other charge in the profit or loss.

6. Finance Costs and Income

Accounting Policy

Borrowing costs are recognised as an expense in the year in which they are incurred, except to the extent that they are capitalised when they are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

Interest and other finance income is recognised on a time proportion basis using the effective interest method.

	2020 HK$M	2019 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	**738**	811
Other borrowings	**1,106**	1,161
Tariff Stabilisation Fund [(a)]	**18**	22
Customers' deposits and fuel clause over-recovery	**32**	49
Lease liabilities	**37**	16
Net fair value changes on debt related derivative financial instruments		
Cash flow hedge		
Reclassified from cash flow hedge reserve	**(261)**	24
Reclassified from cost of hedging reserve	**5**	52
Ineffectiveness of cash flow hedges	**2**	–
Fair value hedge		
Net fair value gain on derivative financial instruments	**(303)**	(262)
Reclassified from cost of hedging reserve	**14**	15
Ineffectiveness of fair value hedges	**1**	3
Not qualified for hedge accounting	**36**	28
Net fair value loss on hedged items in fair value hedges	**303**	262
Net exchange loss / (gain) on financing activities	**247**	(55)
Finance charges	**204**	180
	2,179	2,306
Less: amount capitalised [(b)]	**(306)**	(323)
	1,873	1,983
Finance income		
Interest income on bank deposits and loans to joint ventures	**136**	162

Notes:

(a) In accordance with the provisions of the SoC Agreement, CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund (Note 25(B)).

(b) Finance costs of the Group's general borrowings have been capitalised at average interest rates of 2.92% – 4.81% (2019: 3.44% – 4.81%) per annum.

7. Income Tax Expense

Income tax in the consolidated statement of profit or loss represents the income tax of the Company and subsidiaries and is analysed below:

	2020 HK$M	2019 HK$M
Current income tax	**2,529**	2,189
Deferred tax	**464**	598
	2,993	2,787

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2020 HK$M	2019 HK$M
Profit before income tax	**15,501**	8,541
Less: Share of results of joint ventures and associates, net of income tax	**(2,522)**	(2,713)
	12,979	5,828
Calculated at an income tax rate of 16.5% (2019: 16.5%)	**2,142**	962
Effect of different income tax rates in other countries	**529**	425
Effect of changes in tax rates	**–**	87
Income not subject to tax	**(90)**	(139)
Expenses not deductible for tax purposes	**286**	1,319
Revenue adjustment for SoC not subject to tax	**109**	118
Under-provision in prior years	**11**	9
Tax losses not recognised	**6**	6
Income tax expense	**2,993**	2,787

8. Dividends

	2020		2019	
	HK$ per Share	**HK$M**	HK$ per Share	HK$M
First to third interim dividends paid	**1.89**	**4,775**	1.89	4,775
Fourth interim dividend declared	**1.21**	**3,057**	1.19	3,007
	3.10	**7,832**	3.08	7,782

At the Board meeting held on 22 February 2021, the Directors declared the fourth interim dividend of HK$1.21 per share (2019: HK$1.19 per share). The fourth interim dividend is not reflected as a dividend payable in the financial statements.

9. Earnings per Share

The earnings per share are computed as follows:

	2020	2019
Earnings attributable to shareholders (HK$M)	**11,456**	4,657
Weighted average number of shares in issue (thousand shares)	**2,526,451**	2,526,451
Earnings per share (HK$)	**4.53**	1.84

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2020 (2019: nil).

10. Fixed Assets

Accounting Policy

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the fixed asset. Cost may also include transfer from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For any asset replacement, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in the period in which they are incurred.

Depreciation of fixed assets is calculated, using the straight-line method, to allocate their costs to their estimated residual values over their estimated useful lives. The estimated useful lives of the fixed assets are set out below:

	SoC fixed assets	Non-SoC fixed assets
Freehold land	not applicable	not depreciable
Cable tunnels	100 years	30 years
Buildings and civil structures at power stations	35 years	20 – 50 years
Ash lagoon	35 years	20 – 40 years
Other buildings and civil structures	60 years	10 – 60 years
Generating plants	25 – 45 years*	10 – 40 years
Overhead lines (33kV and above)	60 years	20 years
Overhead lines (below 33kV)	45 years	18 – 20 years
Cables	60 years	10 – 30 years
Switchgear and transformers	50 years	15 – 35 years
Substation miscellaneous	25 years	10 – 20 years
Meters	15 years	10 – 15 years
Other equipment, furniture and fittings, motor vehicles and marine crafts	5 – 10 years	5 – 30 years

* Useful lives of certain generating plants have been extended by 10 – 20 years after mid-life refurbishments.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. For plant under construction, no depreciation is provided until the construction is completed and the assets are ready for their intended use. An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

10. Fixed Assets (continued)

Critical Accounting Estimates and Judgements

(A) Assessment of the Carrying Value of Generation Assets in Australia

Given continued changes in the National Electricity Market (NEM) in Australia and changes in the supply and demand equilibrium, risk is introduced in market modelling which heightens the criticality of this judgement area. As part of making these critical judgements, risks do exist in the assumptions made around supply and demand with regard to the Group's generation assets in Australia. In certain circumstances, where contraction of demand and supply side response vary substantially from the assumptions made, significant changes in the value of the assets could eventuate.

When determining the recoverable amount of the generation assets, scenarios are produced which reflect a range of economic conditions that could exist over the life of the CGU. The scenarios consider a broad range of outcomes including increased renewable generation, emissions reduction and carbon pricing schemes, potential regulatory changes and the impact to the useful lives of the Group's generation assets. The scenarios are then considered in terms of likelihood to arrive at management's best estimate of recoverable amount.

Key estimates and assumptions for assessing the carrying value of the generation assets are as follows:

- Critical judgement exists in estimating forward electricity pool prices (the forward curve), generation volumes, retail volumes and gas prices. The forward curve has a significant impact on the accounting for certain items including value in use calculations for impairment purposes.
- Operating costs are escalated by relevant cost drivers using activity-based costing principles. Non-contracted fuel costs are based on management's estimate of future fuel prices.

Changes to the estimates and assumptions and other inputs could impact the assessed recoverable amounts of assets and CGUs and consequently impact the Group's financial performance and position. Management considers that no reasonably possible change would result in an impairment of generation assets, in view of the long-term nature of the key assumptions and the headroom by which the estimated recoverable amount exceeds the carrying amount. Furthermore, given the level of uncertainty, management considers it would be inappropriate to reverse any previous impairment charges.

(B) Assessment of the Carrying Values of Fixed Assets and Right-of-use Assets in Other Regions

The Group has also made substantial investments in fixed assets and right-of-use assets (mainly leasehold land and land use rights) in other regions. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

Determining whether an asset or a CGU should be impaired requires an estimation of the recoverable amount, which requires the Group to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the present value of the expected cash flows is less than the asset's carrying amount, an impairment loss may arise. During 2020, after reviewing the business environment as well as the Group's strategies and past performance of the investments, management concluded that there were impairments for fixed assets of HK$68 million and goodwill of HK$12 million (Note 13) relating to power projects in India.

Apart from the assets impaired above, the impairment models indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. Management considers that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2020 year end.

10. Fixed Assets (continued)

The movements during the year are set out below:

	Freehold Land HK$M	Buildings HK$M	Plant, Machinery and Equipment HK$M	Total HK$M
Net book value at 1 January 2019	1,203	20,562	119,131	140,896
Acquisition of a subsidiary	–	5	333	338
Additions	3	1,517	8,746	10,266
Transfers and disposals	–	(54)	(413)	(467)
Depreciation	–	(692)	(6,123)	(6,815)
Impairment charge	–	–	(7)	(7)
Exchange differences	(25)	(74)	(497)	(596)
Net book value at 31 December 2019	1,181	21,264	121,170	143,615
Cost	1,275	35,105	219,302	255,682
Accumulated depreciation and impairment	(94)	(13,841)	(98,132)	(112,067)
Net book value at 31 December 2019	1,181	21,264	121,170	143,615
Net book value at 1 January 2020	1,181	21,264	121,170	143,615
Acquisitions of subsidiaries (note)	49	–	532	581
Additions	–	1,325	9,363	10,688
Transfers and disposals	(91)	(44)	(483)	(618)
Depreciation	–	(738)	(6,458)	(7,196)
Impairment charge	(11)	–	(57)	(68)
Exchange differences	6	181	1,265	1,452
Net book value at 31 December 2020	**1,134**	**21,988**	**125,332**	**148,454**
Cost	1,247	36,574	230,720	268,541
Accumulated depreciation and impairment	(113)	(14,586)	(105,388)	(120,087)
Net book value at 31 December 2020	**1,134**	**21,988**	**125,332**	**148,454**

Note: In March and April 2020, the Group acquired 100% interest in each of Cleansolar Renewable Energy Private Limited and Divine Solren Private Limited, which own and operate a 30MW and a 50MW solar farm in the southern state of Telangana, India, for a consideration of HK$112 million (Rs1,084 million) and HK$126 million (Rs1,245 million) respectively. These transactions are accounted for as asset acquisitions since substantially all of the fair value of the gross assets acquired in both acquisitions was primarily concentrated in the solar generation assets.

Assets under construction with book value of HK$9,924 million (2019: HK$15,754 million) included fixed assets and prepaid leasehold land (under right-of-use assets).

11. Right-of-Use Assets

Accounting Policy

The Group as a lessee recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets.

The Group has lease contracts for land and buildings and various items of plant, machinery and equipment used in its operations. The movements during the year are set out below:

	Prepaid Leasehold Land [(a)] HK$M	Land and Buildings [(b)] HK$M	Plant, Machinery and Equipment [(b)] HK$M	Total HK$M
Net book value at 1 January 2019	5,789	165	46	6,000
Acquisition of a subsidiary	2	–	–	2
Additions	187	118	44	349
Depreciation	(191)	(96)	(8)	(295)
Exchange differences	(5)	–	(1)	(6)
Net book value at 31 December 2019	5,782	187	81	6,050
Net book value at 1 January 2020	5,782	187	81	6,050
Acquisition of a subsidiary	–	1	3	4
Additions	7	618	604	1,229
Depreciation	(196)	(129)	(27)	(352)
Exchange differences	10	51	69	130
Net book value at 31 December 2020	**5,603**	**728**	**730**	**7,061**

Notes:

(a) Prepaid leasehold land represents upfront lease payments, including land premium, on lease of land with the tenure of 25 to 75 years.

(b) The Group has leased several assets including a water treatment plant, offices and battery storage facilities. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Tenures of the leases range from 2 to 30 years.

12. Investment Property

Accounting Policy

Investment properties include properties that are being constructed or developed for future use as investment properties. Land held under an operating lease is accounted for as an investment property when the rest of the definition of an investment property under the accounting standard is met. Investment properties are measured initially at cost, including related transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Any gains and losses arising from changes in the fair value or from the retirement or disposal of an investment property are recognised in profit or loss in the period in which they arise.

12. Investment Property (continued)

	2020 HK$M	2019 HK$M
At 1 January	1,121	1,204
Revaluation loss	(121)	(83)
At 31 December	1,000	1,121

Investment property represents the commercial interest of the retail portion of the Laguna Mall in Hong Kong, which is leased out by the Group under operating leases.

Investment property was valued by Cushman & Wakefield Limited (Cushman), an independent qualified valuer, who holds recognised relevant professional qualifications and has recent experience in the locations and segments of the investment property valued.

Cushman has valued the property at 31 December 2020 by using the income capitalisation approach, cross-referenced with comparable market transactions. The income capitalisation approach is based on the capitalisation of the existing rental / licence income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate capitalisation rates that by reference to the yields achieved in analysed market sales transactions and as expected by investors. The significant unobservable input is the capitalisation rate adopted for the valuation which are ranging from 3.9% to 4.15% (2019: 3.7% to 3.95%). The fair value is negatively correlated to the capitalisation rate.

The fair value measurement of the Group's investment property is categorised within Level 3 of the fair value hierarchy at 31 December 2020 and 2019.

13. Goodwill and Other Intangible Assets

Accounting Policy

(A) Goodwill

Goodwill arises from the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken at least annually or if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and cannot be subsequently reversed.

(B) Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life and carried at cost less accumulated amortisation and accumulated impairment losses.

13. Goodwill and Other Intangible Assets (continued)

Critical Accounting Estimates and Judgements: Goodwill Impairment

The recoverable amounts of CGUs with allocated goodwill are determined based on value in use calculations, which use cash flow projections as at 31 December 2020. These cash flow projections are derived from the approved business plan which has a forecast covering a period of ten years and have incorporated necessary updates. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long-dated nature of our generation and electricity supply assets and a more appropriate reflection of future cash flows from potential legislative, regulatory and structural changes in the industry.

Energy retail business in Australia

Key assumptions for value in use calculations

The key assumptions used in the value in use calculations reflect a combination of internal and external factors impacting gross margin, number of customer accounts and discount rates.

The assumptions impacting gross margin include:

- Retail tariffs are sensitive to regulatory changes including regulation and deregulation, and based on management estimates and expectations of current and expected market conditions arising from known and potential regulatory outcomes.
- Electricity and gas volumes for purchases and sales in the short term represent the forecast projections in EnergyAustralia's Business Plan. External information is used to verify and align internal estimates.
- Electricity and gas network (distribution) cost assumptions are based on published regulated prices. When no estimates are available, network costs are assumed to escalate by the relevant consumer price index.
- Electricity pool prices, generation volumes, dispatch levels and gas prices were derived using modelling of the electricity and gas wholesale markets. NEM modelling is prepared internally using, where possible, observable inputs. The modelling used for the electricity wholesale and gas markets is based on experience and observable market activity.

Other assumptions include:

- The number of customer accounts in the short term for electricity and gas aligns with EnergyAustralia's Business Plan.
- The cash flow projections are discounted using a pre-tax discount rate of 9.9% (2019: 10.4%). The discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital.
- A long term growth rate of 2.5% (2019: 2.0%) is applied in the terminal value calculation after the first ten years of cash flows.

13. Goodwill and Other Intangible Assets (continued)

Critical Accounting Estimates and Judgements: Goodwill Impairment (continued)

Energy retail business in Australia (continued)

Sensitivity analysis for the energy retail CGU valuation

When undertaking the value in use calculation of our retail CGU at year end, the results indicate that minimal headroom remains. The energy retail CGU valuation is sensitive to certain key assumptions, in particular, gross margin and customer accounts growth. Despite more certainty over retail tariffs following the introduction of the default offers, both retail tariffs and customer account growth assumptions are judgemental and have a direct impact on our CGU valuation. Movements in discount rates, whilst driven by different assumptions, would also have an impact.

- A 5% decrease in long term gross margin would decrease the recoverable amount by HK$1,779 million (A$299 million).
- A 1% decrease in long term annual customer growth rate would decrease the recoverable amount by HK$1,595 million (A$268 million).
- An increase in the discount rate of 0.5% would decrease the recoverable amount by HK$1,654 million (A$278 million).

These sensitivities are based on a change in the relevant assumption while holding other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. Up to the date of this report, there were no confirmed material changes in any of the key assumptions mentioned above that would have caused the recoverable amount to be less than its carrying value.

Hong Kong electricity business

Goodwill arising from the CAPCO acquisition in 2014 was allocated to CLP Power Hong Kong and CAPCO as a combined CGU as the acquisition is considered beneficial to the whole SoC business. The key assumptions used in the value in use calculation are as follows:

- The electricity tariff for the supply of electricity in meeting the demand of customers in Hong Kong over the forecast periods is determined with reference to the rate-setting mechanism under the SoC.
- The forecast for electricity demand is based on the load forecast to support local infrastructure development and meeting customer load requirements, maintaining safety and supply reliability, and meeting environmental requirements.
- Expenditures for the supply of electricity in meeting the forecast demand are based on committed purchase contracts where applicable, and inputs on costs trend as specific to the electricity business in Hong Kong. Such forecast aligns with the projection in the Business Plan for our Hong Kong electricity business, with capital expenditures for the periods to year 2023 aligned with those forecasted in the approved Development Plan.
- Terminal value of the CGU is adopted to estimate the cash flows to be generated for the periods beyond ten years. This is expressed as a multiple of net asset values which corresponds to our return model based on fixed assets investment. The terminal value is a multiple of 1.2 times of the net asset values forecasted as at the end of 2030.
- The cash flow projections are discounted using a pre-tax discount rate of 9.80% (2019: 9.79%), or a post-tax return of 8.00% (2019: 8.00%) which reflects the SoC return rate applicable to the electricity business in Hong Kong.

Up to the date of this report, there were no reasonably possible changes in any of the key assumptions mentioned above that would have caused the recoverable amounts of this CGU to be less than its carrying value.

13. Goodwill and Other Intangible Assets (continued)

	Goodwill [(a)] HK$M	Capacity Right [(b)] HK$M	Others HK$M	Total HK$M
Net carrying value at 1 January 2019	20,670	4,420	1,820	26,910
Additions	–	22	753	775
Amortisation	–	(276)	(732)	(1,008)
Impairment charge (Note 5(d))	(6,381)	–	–	(6,381)
Exchange differences	(161)	–	(24)	(185)
Net carrying value at 31 December 2019	14,128	4,166	1,817	20,111
Cost	20,606	5,716	7,161	33,483
Accumulated amortisation and impairment	(6,478)	(1,550)	(5,344)	(13,372)
Net carrying value at 31 December 2019	14,128	4,166	1,817	20,111
Net carrying value at 1 January 2020	14,128	4,166	1,817	20,111
Acquisition of a subsidiary	42	–	–	42
Additions	–	11	440	451
Disposals	–	–	(35)	(35)
Amortisation	–	(276)	(652)	(928)
Impairment charge	(12)	–	–	(12)
Exchange differences	788	–	142	930
Net carrying value at 31 December 2020	**14,946**	**3,901**	**1,712**	**20,559**
Cost	22,033	5,727	8,276	36,036
Accumulated amortisation and impairment	(7,087)	(1,826)	(6,564)	(15,477)
Net carrying value at 31 December 2020	**14,946**	**3,901**	**1,712**	**20,559**

Notes:

(a) Goodwill mainly arose from the acquisitions of energy retail business in Australia of HK$9,308 million (2019: HK$8,524 million) and the acquisition of CAPCO under Hong Kong electricity business of HK$5,545 million (2019: HK$5,545 million).

(b) The capacity right represents the right to use 50% of the pumped storage capacity of Phase I of the Guangzhou Pumped Storage Power Station in Conghua, Guangzhou and the corresponding right to use the associated transmission facilities until 2034.

14. Interests in and Loans to Joint Ventures

Accounting Policy No. 3(B)

The table below lists the material joint ventures of the Group at 31 December 2020:

Name	% of Ownership Interest at 31 December 2019 and 2020	Place of Incorporation / Business	Principal Activity
CSEC Guohua International Power Company Limited (CSEC Guohua) [(a)]	30	Mainland China	Generation of electricity
CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) [(b)]	70 [(c)]	Mainland China	Generation of electricity
OneEnergy Taiwan Ltd (OneEnergy Taiwan) [(d)]	50	British Virgin Islands / Taiwan	Investment holding
ShenGang Natural Gas Pipeline Company Limited (SNGPC) [(b)]	40	Mainland China	Natural gas transportation
Shandong Zhonghua Power Company, Ltd. (SZPC) [(e)]	29.4	Mainland China	Generation of electricity
Hong Kong LNG Terminal Limited (HKLTL)	49 [(f)]	Hong Kong	Development, construction, operation, maintenance and owning of LNG terminal and provision of related services

Notes:

(a) Registered as Sino-Foreign Joint Stock Company under People's Republic of China (PRC) law

(b) Registered as Sino-Foreign Equity Joint Venture Enterprise under PRC law

(c) Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activities of Fangchenggang and hence, the Group's interest is accounted for as a joint venture.

(d) OneEnergy Taiwan indirectly owns 40% interest in Ho-Ping Power Company.

(e) Registered as Sino-Foreign Cooperative Joint Venture Enterprise under PRC law

(f) HKLTL is 70% owned by CAPCO which is 70% owned by CLP Power Hong Kong.

More detailed information of our joint ventures can be found on "Our Portfolio" on pages 6 to 8 of the Annual Report.

14. Interests in and Loans to Joint Ventures (continued)

Summarised financial information of joint ventures and the Group's share of results and net assets are as follows:

	CSEC Guohua HK$M	Fang-chenggang HK$M	OneEnergy Taiwan HK$M	SNGPC HK$M	SZPC HK$M	HKLTL HK$M	Others HK$M	Total HK$M
For the year ended 31 December 2020								
Revenue	**11,688**	**3,934**	**–**	**949**	**4,662**	**1**	**1,516**	**22,750**
Depreciation and amortisation	**(1,368)**	**(230)**	**–**	**(179)**	**(964)**	**–**	**(433)**	**(3,174)**
Interest income	**9**	**9**	**–**	**2**	**1**	**–**	**3**	**24**
Interest expense	**(198)**	**(242)**	**–**	**(29)**	**(101)**	**–**	**(63)**	**(633)**
Other expenses	**(9,933)**	**(3,025)**	**(2)**	**(163)**	**(3,525)**	**(1)**	**(789)**	**(17,438)**
Share of results of joint ventures	**–**	**–**	**732**	**–**	**–**	**–**	**(2)**	**730**
Profit before income tax	**198**	**446**	**730**	**580**	**73**	**–**	**232**	**2,259**
Income tax expense	**(77)**	**(113)**	**–**	**(145)**	**(105)**	**–**	**(119)**	**(559)**
Profit/(loss) for the year	**121**	**333**	**730**	**435**	**(32)**	**–**	**113**	**1,700**
Non-controlling interests	**(123)**	**–**	**–**	**–**	**–**	**–**	**–**	**(123)**
(Loss)/profit for the year attributable to shareholders	**(2)**	**333**	**730**	**435**	**(32)**	**–**	**113**	**1,577**
Profit/(loss) for the year	**121**	**333**	**730**	**435**	**(32)**	**–**	**113**	**1,700**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Total comprehensive income	**121**	**333**	**730**	**435**	**(32)**	**–**	**117**	**1,704**
Group's share								
(Loss)/profit for the year attributable to shareholders	**(1)**	**234**	**365**	**174**	**(9)**	**–**	**34**	**797**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Total comprehensive income	**(1)**	**234**	**365**	**174**	**(9)**	**–**	**36**	**799**
Dividend income from joint ventures	**43**	**252**	**9**	**140**	**52**	**–**	**125**	**621**
For the year ended 31 December 2019								
Revenue	12,384	4,038	–	957	5,703	1	1,613	24,696
Depreciation and amortisation	(1,417)	(223)	–	(180)	(1,084)	–	(555)	(3,459)
Interest income	14	11	–	2	2	–	2	31
Interest expense	(286)	(276)	–	(42)	(156)	–	(102)	(862)
Other expenses	(10,176)	(3,031)	(3)	(203)	(4,399)	(1)	(397)	(18,210)
Share of results of joint ventures	–	–	544	–	–	–	(4)	540
Profit before income tax	519	519	541	534	66	–	557	2,736
Income tax expense	(180)	(143)	–	(135)	(101)	–	(98)	(657)
Profit/(loss) for the year	339	376	541	399	(35)	–	459	2,079
Non-controlling interests	(228)	–	–	–	–	–	–	(228)
Profit/(loss) for the year attributable to shareholders	111	376	541	399	(35)	–	459	1,851
Profit/(loss) for the year	339	376	541	399	(35)	–	459	2,079
Other comprehensive income	–	–	–	–	–	–	2	2
Total comprehensive income	339	376	541	399	(35)	–	461	2,081
Group's share								
Profit/(loss) for the year attributable to shareholders	33	263	271	160	(10)	–	168	885
Other comprehensive income	–	–	–	–	–	–	1	1
Total comprehensive income	33	263	271	160	(10)	–	169	886
Dividend income from joint ventures	17	–	225	83	–	–	156	481

14. Interests in and Loans to Joint Ventures (continued)

	CSEC Guohua HK$M	Fang-chenggang HK$M	OneEnergy Taiwan HK$M	SNGPC HK$M	SZPC HK$M	HKLTL HK$M	Others HK$M	Total HK$M
At 31 December 2020								
Non-current assets	**20,619**	**7,780**	**3,459**	**3,796**	**3,490**	**699**	**5,613**	**45,456**
Current assets								
Cash and cash equivalents	**1,158**	**696**	**535**	**143**	**70**	**–**	**440**	**3,042**
Other current assets	**1,328**	**779**	**2**	**32**	**916**	**231**	**1,148**	**4,436**
	2,486	**1,475**	**537**	**175**	**986**	**231**	**1,588**	**7,478**
Current liabilities								
Financial liabilities [a]	**(1,991)**	**(421)**	**–**	**(323)**	**(1,314)**	**–**	**(424)**	**(4,473)**
Other current liabilities [a]	**(1,521)**	**(799)**	**–**	**(254)**	**(822)**	**(3)**	**(402)**	**(3,801)**
	(3,512)	**(1,220)**	**–**	**(577)**	**(2,136)**	**(3)**	**(826)**	**(8,274)**
Non-current liabilities								
Financial liabilities [a]	**(2,944)**	**(4,862)**	**–**	**–**	**(951)**	**–**	**(1,052)**	**(9,809)**
Shareholders' loans	**–**	**–**	**–**	**(161)**	**–**	**(927)**	**(18)**	**(1,106)**
Other non-current liabilities [a]	**(1,842)**	**(58)**	**–**	**(734)**	**(16)**	**–**	**(19)**	**(2,669)**
	(4,786)	**(4,920)**	**–**	**(895)**	**(967)**	**(927)**	**(1,089)**	**(13,584)**
Non-controlling interests	**(6,529)**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,529)**
Net assets	**8,278**	**3,115**	**3,996**	**2,499**	**1,373**	**–**	**5,286**	**24,547**
Group's share of net assets	**2,483**	**2,181**	**1,997**	**999**	**404**	**–**	**2,188**	**10,252**
Goodwill	**–**	**–**	**–**	**–**	**–**	**–**	**43**	**43**
Interests in joint ventures	**2,483**	**2,181**	**1,997**	**999**	**404**	**–**	**2,231**	**10,295**
Loans to joint ventures	**–**	**–**	**–**	**65** [b]	**–**	**649** [c]	**8**	**722**
	2,483	**2,181**	**1,997**	**1,064**	**404**	**649**	**2,239**	**11,017**
At 31 December 2019								
Non-current assets	20,435	7,514	3,070	3,711	4,207	165	6,504	45,606
Current assets								
Cash and cash equivalents	1,596	681	6	122	12	4	542	2,963
Other current assets	1,495	752	1	61	800	1	1,066	4,176
	3,091	1,433	7	183	812	5	1,608	7,139
Current liabilities								
Financial liabilities [a]	(2,478)	(361)	–	(302)	(1,485)	–	(810)	(5,436)
Other current liabilities [a]	(1,580)	(722)	–	(160)	(470)	(29)	(447)	(3,408)
	(4,058)	(1,083)	–	(462)	(1,955)	(29)	(1,257)	(8,844)
Non-current liabilities								
Financial liabilities [a]	(3,809)	(4,862)	–	–	(1,555)	–	(1,146)	(11,372)
Shareholders' loans	–	–	–	(453)	–	(141)	(7)	(601)
Other non-current liabilities [a]	(1,699)	(56)	–	(719)	(21)	–	(27)	(2,522)
	(5,508)	(4,918)	–	(1,172)	(1,576)	(141)	(1,180)	(14,495)
Non-controlling interests	(6,069)	–	–	–	–	–	–	(6,069)
Net assets	7,891	2,946	3,077	2,260	1,488	–	5,675	23,337
Group's share of net assets	2,367	2,062	1,539	904	438	–	2,334	9,644
Goodwill	–	–	–	–	–	–	71	71
Interests in joint ventures	2,367	2,062	1,539	904	438	–	2,405	9,715
Loans to joint ventures	–	–	–	181 [b]	–	98 [c]	5	284
	2,367	2,062	1,539	1,085	438	98	2,410	9,999

14. Interests in and Loans to Joint Ventures (continued)

Notes:

(a) Financial liabilities exclude trade and other payables and provisions, which are included in other current and non-current liabilities.

(b) Loan to SNGPC is unsecured, carries interest at 90% (2019: 90%) of the over five years Renminbi benchmark lending rate of the People's Bank of China and with final maturity in June 2022. The current portion of the loan of HK$129 million (2019: HK$121 million) was included in the Group's trade and other receivables.

(c) Pursuant to the agreement between shareholders of HKLTL, shareholders' loan facilities are provided to HKLTL by the shareholders pro-rata to their shareholdings to finance the construction of the LNG terminal. The loans to HKLTL are unsecured, carry interest at rates which are benchmarked to market interest rates. Instalment repayment of the loans will commence after the commissioning of the LNG terminal with final maturity at the end of the related asset lives of the LNG terminal. As at 31 December 2020, the outstanding committed shareholder's loan facilities by the Group as a 70% shareholder of HKLTL amounted to HK$982 million (2019: HK$1,533 million).

The expected credit loss of loans to joint ventures is close to zero.

	2020 HK$M	2019 HK$M
Share of capital commitments	**952**	410
Share of lease and other commitments *	**2,713**	2,725
Share of contingent liabilities	**58**	55

* Representing the share of lease and other commitments in relation to the use and operation of a floating storage and regasification unit

The Group's capital commitments in relation to its interests in joint ventures are disclosed in Note 31(B).

15. Interests in Associates Accounting Policy No. 3(B)

The table below lists the associates of the Group at 31 December 2020:

Name	% of Ownership Interest at 31 December 2019 and 2020	Place of Incorporation / Business	Principal Activity
Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) [(a)]	25	Mainland China	Generation of Electricity
Yangjiang Nuclear Power Co., Ltd. (Yangjiang Nuclear) [(a)]	17	Mainland China	Generation of Electricity

More detailed information of our associates can be found on "Our Portfolio" on pages 6 to 8 of the Annual Report.

15. Interests in Associates (continued)

Summarised financial information of the associates and the Group's share of results and net assets are as follows:

	GNPJVC HK$M	Yangjiang Nuclear [b] HK$M
For the year ended 31 December 2020		
Revenue	**7,979**	**16,861**
Profit and total comprehensive income	**3,926**	**4,370**
Group's share of profit and total comprehensive income	**982**	**743**
Dividend income from associates	**977**	**726**
For the year ended 31 December 2019		
Revenue	8,213	16,514
Profit and total comprehensive income	3,949	4,943
Group's share of profit and total comprehensive income	987	841
Dividend income from associates	17	717
At 31 December 2020		
Non-current assets	**6,608**	**104,555**
Current assets	**7,553**	**13,136**
Current liabilities	**(2,373)**	**(15,218)**
Non-current liabilities	**(4,763)**	**(58,796)**
Net assets	**7,025**	**43,677**
Group's share of net assets	**1,756**	**7,425**
At 31 December 2019		
Non-current assets	5,579	100,420
Current assets	7,795	12,435
Current liabilities	(1,996)	(12,705)
Non-current liabilities	(4,338)	(59,279)
Net assets	7,040	40,871
Group's share of net assets	1,760	6,948

At 31 December 2020, the Group's share of capital commitments of its associates was HK$692 million (2019: HK$465 million).

Notes:

(a) Registered as Sino-Foreign Equity Joint Venture Enterprise under PRC law

(b) The share of results of Yangjiang Nuclear included amortisation of the fair value adjustment on fixed assets.

16. Derivative Financial Instruments

Accounting Policy

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair value gain or loss arising from derivatives not designated or not qualified for hedge accounting are recognised immediately in profit or loss.

The Group designates certain derivatives as either fair value hedges, which are hedges of the fair value of recognised financial assets or financial liabilities or firm commitments (e.g. fixed interest rate loans and foreign currency trade receivables) or cash flow hedges, which are hedges of the cash flows of recognised financial assets or financial liabilities or highly probable forecast transactions (e.g. floating interest rate loans and future purchases of fuels denominated in US dollar).

As mentioned in Note 2(A) and Note 2(C) of Significant Accounting Policies, the Group has adopted the Reform – Phase 1, as a result, it is assumed that cash flows associated with designated hedge relationships will continue to be highly probable after LIBOR is replaced with alternative interest rate.

The Group documents at the inception of the transaction the intended relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging relationship meets the hedge effectiveness requirements.

(A) Fair value hedges

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, which offset any changes in the fair values recognised in profit or loss of the corresponding hedged asset or liability that are attributable to the hedged risk and achieve the overall hedging result.

(B) Cash flow hedges

The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss. Such reclassification from equity will offset the effect on profit or loss of the corresponding hedged item to achieve the overall hedging result. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset at the time of acquisition. The deferred amounts are ultimately recognised in fuel costs in the case of inventory or in depreciation in the case of fixed assets.

For cash flow hedges affected by the Reform, the Group retains the cumulative gain or loss in the cash flow hedge reserve, even though there is uncertainty arising from the Reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider that the hedged future cash flows are no longer expected to occur due to reasons other than the Reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. Any cumulative gain or loss remains in equity at that time is accounted for according to the nature of the underlying transactions (as discussed above) once the hedged cash flow occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been recorded in equity is reclassified to profit or loss immediately.

16. Derivative Financial Instruments (continued)

Accounting Policy (continued)

(C) Costs of hedging

Time value of options, forward element of forward contracts and foreign currency basis spread of financial instruments may be separated and excluded from the designated hedging instruments. In such case, the Group treats the excluded elements as costs of hedging. The fair value changes of these elements are recognised in a separate component of equity. For time-period related hedged items, these elements at the date of designation (to the extent that it relates to the hedged item) are amortised on a systematic and rational basis to profit or loss over the period. For transaction related hedged items, the cumulative change of these elements is included in the initial carrying amount of any non-financial asset recognised when the hedged transaction occurs or is recognised in profit or loss if the hedged transaction affects profit or loss.

(D) Rebalancing of hedge relationships

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

	2020		2019	
	Assets	**Liabilities**	Assets	Liabilities
	HK$M	**HK$M**	HK$M	HK$M
Cash flow hedges				
Forward foreign exchange contracts	**22**	**115**	38	77
Foreign exchange options	**7**	**–**	19	–
Cross currency interest rate swaps	**230**	**1,144**	206	756
Interest rate swaps	**–**	**166**	26	44
Energy contracts	**2,108**	**1,412**	1,701	931
Fair value hedges				
Cross currency interest rate swaps	**279**	**68**	–	142
Interest rate swaps	**55**	**17**	–	44
Not qualified for hedge accounting				
Forward foreign exchange contracts	**107**	**60**	242	44
Interest rate swaps	**14**	**2**	20	1
Energy contracts	**691**	**317**	172	259
	3,513	**3,301**	2,424	2,298
Current	**1,816**	**1,166**	1,035	993
Non-current	**1,697**	**2,135**	1,389	1,305
	3,513	**3,301**	2,424	2,298

At 31 December 2020, the contractual maturity profile of the hedging instruments from the end of the reporting period is summarised below:

Forward foreign exchange contracts	Up to 5 years
Foreign exchange options	Up to 2 years
Cross currency interest rate swaps	Up to 15 years
Interest rate swaps	Up to 12 years
Energy contracts	Up to 10 years

17. Other Non-current Assets

Accounting Policy

(A) Investments

Equity investments are initially recognised at fair value and are subsequently measured at fair value through profit or loss. Where an equity investment is elected to present subsequent changes in the fair value in other comprehensive income, the gains or losses on such equity investments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Cumulative gains and losses recognised in other comprehensive income are transferred to retained profits on disposal of an equity investment. Dividends on equity investments are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are deducted from the carrying amounts of the equity investments directly.

Other financial assets (mainly investments in funds) are initially recognised at fair value and are subsequently measured at fair value through profit or loss.

(B) Contract acquisition costs

Incremental costs to obtain a contract with a customer are capitalised if they are expected to be recoverable. Costs capitalised are amortised on a straight-line basis over the expected benefit periods of the contracts. Non-incremental costs, i.e. costs that would have been incurred regardless of whether the contract is obtained, are expensed when incurred.

(C) Service concession receivables

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction. Such financial assets are initially measured at fair value and are subsequently measured at amortised cost.

	2020 **HK$M**	2019 HK$M
Contract acquisition costs	**154**	136
Defined benefit asset	**130**	134
Investments at fair value through other comprehensive income	**273**	331
Investments at fair value through profit or loss	**291**	247
Service concession receivables (note)	**243**	255
Others	**209**	177
	1,300	1,280

Note: Satpura Transco Private Limited operates 400kV transmission lines in Madhya Pradesh, India, on Design, Build, Finance, Operate and Transfer basis which is considered as a service concession arrangement under HK(IFRIC) Interpretation 12. The current portion of HK$7 million (2019: HK$10 million) is included under the Group's trade and other receivables. The expected credit loss is close to zero.

18. Property under Development

Accounting Policy

Property under development comprises leasehold land and construction-in-progress and is carried at the lower of cost and net realisable value. Property under development is included in current assets when it is expected to be realised or is intended for sale in the normal operating cycle.

On 18 December 2017, the Group and Sino Land Company Limited (Sino Land) agreed to collaborate on redeveloping the Group's former headquarters at Argyle Street for residential purposes and to preserve the Clock Tower building for community use. Under the development arrangement, Sino Land is fully responsible for all development costs such as land premium, construction costs, professional fees etc. and paid a non-refundable upfront payment of HK$3 billion to the Group. When the property is completed and sold, the Group is entitled to share a percentage of the sale proceeds.

The arrangement entered into by the Group and Sino Land does not involve an establishment of a separate legal entity and is considered as a joint operation under HKFRS 11 Joint Arrangements. The non-refundable upfront payment forms part of the proceeds from the property development and is recorded as deferred revenue (Note 22(e)). When legal titles of the units in the developed property are passed to the purchasers, deferred revenue and the percentage share of the sale proceeds to which the Group is entitled will be credited to the profit or loss as revenue, while property under development will be charged to the profit or loss as cost of development.

19. Trade and Other Receivables

Accounting Policy

Trade and other receivables are recognised initially at transaction price and are subsequently stated at amortised cost using the effective interest method, less allowances for expected credit losses. The Group measures the loss allowance for its trade receivables at an amount equal to the lifetime expected credit losses. The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to its recognised amount is recognised in profit or loss, as an impairment loss or a reversal of an impairment loss. Trade and other receivables are written off (either partially or in full) when there is no reasonable expectation of recovery.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the trade receivables. Expected credit losses on trade receivables are calculated by using the provision matrix approach. Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

If there has no significant increase in credit risk since initial recognition, impairment on other receivables is measured at 12-month expected credit losses. If a significant increase in credit risk has occurred, then impairment is measured as lifetime expected credit losses.

Critical Accounting Estimates and Judgements: Recoverability of Trade Receivables

Provision for expected credit losses is made when the Group does not expect to collect all amounts due. The provision is determined by grouping together trade debtors with similar risk characteristics and collectively or individually assessing them for likelihood of recovery. The provision reflects lifetime expected credit losses i.e. possible default events over the expected life of the trade receivables, weighted by the probability of that default occurring. Judgement has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of customers and the likelihood of recovery assessed on a combination of collective and individual basis as relevant. While the provision is considered appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provision recorded and consequently on the charge or credit to profit or loss.

19. Trade and Other Receivables (continued)

	2020 HK$M	2019 HK$M
Trade receivables [(a)]	**10,868**	10,791
Deposits, prepayments and other receivables	**1,860**	1,985
Dividend receivables from joint ventures	**139**	80
Loans to and current accounts with [(b)]		
Joint ventures	**134**	129
Associates	**1**	1
	13,002	12,986

Notes:

(a) Trade receivables

The ageing analysis of the trade receivables at 31 December based on invoice date is as follows:

	2020 HK$M	2019 HK$M
30 days or below *	**8,559**	8,237
31 – 90 days	**601**	869
Over 90 days	**1,708**	1,685
	10,868	10,791

* Including unbilled revenue

Movements in provision for impairment

	2020 HK$M	2019 HK$M
Balance at 1 January	**1,583**	1,532
Provision for impairment	**512**	384
Receivables written off during the year as uncollectible	**(564)**	(302)
Amounts reversed	**(1)**	(1)
Exchange differences	**72**	(30)
Balance at 31 December	**1,602**	1,583

Credit risk management

The Group has no significant concentrations of credit risk with respect to the trade receivables in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has established credit policies for customers in each of its retail businesses.

In Hong Kong, electricity bills are due within two weeks after issuance. To limit the credit risk exposure, customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount determined from time to time by reference to the usage of the customers, and in the normal course of events will not exceed the highest expected charge for 60 days. At 31 December 2020, such cash deposits amounted to HK$5,895 million (2019: HK$5,677 million) and the bank guarantees stood at HK$854 million (2019: HK$834 million). For all the deposits held, customers are paid a floating market interest rate equivalent to the HSBC bank saving rate. The customers' deposits are treated on the statement of financial position as current liabilities on the basis that they are repayable on demand.

In Australia, customers are allowed to settle their electricity bills in no more than 45 days after issue. EnergyAustralia has policies in place to ensure that sales of products and services are made to retail customers (including residential and commercial customers) of an appropriate credit quality and collectability is reviewed on an ongoing basis.

Trade receivables arising from sales of electricity to the offtakers in Mainland China and India are due for settlement within 30 to 90 days and 15 to 60 days after bills issuance respectively. The offtakers of these regions are mainly state-owned enterprises. Management has closely monitored the credit qualities and the collectability of these trade receivables and consider that the expected credit risks of them are close to zero.

19. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Expected credit losses

For trade receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. CLP Power Hong Kong and EnergyAustralia determine the provision for expected credit losses by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions and forward looking assumptions.

CLP Power Hong Kong

CLP Power Hong Kong classifies its trade receivables by nature of customer accounts. These include active accounts and terminated accounts.

	Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
At 31 December 2020				
Active accounts				
Provision on individual basis	**100%**	**7**	**(5)**	**2**
Provision on collective basis	**0%***	**1,960**	**(8)**	**1,952**
Terminated accounts				
Provision on individual basis	**100%**	**6**	**(6)**	**–**
Provision on collective basis	**25%**	**5**	**(1)**	**4**
		1,978	**(20)**	**1,958**
At 31 December 2019				
Active accounts				
Provision on individual basis	100%	4	(3)	1
Provision on collective basis	0%*	2,056	–	2,056
Terminated accounts				
Provision on individual basis	100%	7	(7)	–
Provision on collective basis	26%	4	(1)	3
		2,071	(11)	2,060

* Expected credit loss is close to zero as these trade receivables are mostly secured by cash deposits or bank guarantees from customers and there is limited recent history of default.

EnergyAustralia

EnergyAustralia categorises its trade receivables based on their ageing. EnergyAustralia recognises lifetime expected credit losses for receivables by assessing future cash flows for each group of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on twelve month rolling historical credit loss experience by customer segment, geographical region, tenure and type of customer and applying to the receivables held at year end. The determining factor impacting collectability is customer attributes. The impact of economic factors, both current and future, is considered in assessing the likelihood of recovery from customers.

19. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Expected credit losses (continued)

EnergyAustralia (continued)

In light of COVID-19, additional provisions have also been recognised at the reporting date, requiring management to apply significant judgement in assessing the impact to recoverability of the Group's receivables caused by the pandemic.

	Weighted Average Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
At 31 December 2020				
Current	**1%**	**3,886**	**(22)**	**3,864**
1 – 30 days	**7%**	**466**	**(34)**	**432**
31 – 60 days	**17%**	**218**	**(37)**	**181**
61 – 90 days	**26%**	**165**	**(43)**	**122**
Over 90 days	**64%**	**1,582**	**(1,019)**	**563**
		6,317	**(1,155)**	**5,162**
At 31 December 2019				
Current	1%	4,153	(36)	4,117
1 – 30 days	7%	483	(27)	456
31 – 60 days	15%	194	(30)	164
61 – 90 days	22%	165	(35)	130
Over 90 days	52%	1,131	(587)	544
		6,126	(715)	5,411

Mainland China

As at 31 December 2020, the Group had total receivables of HK$1,774 million (2019: HK$1,268 million) relating to unpaid Renewable National Subsidies. The application, approval and settlement of the Renewable National Subsidy are governed by the relevant policies issued by the Central People's Government. All of the Group's Mainland China wind and solar projects are qualified for renewable energy subsidy in accordance with the prevailing government policies. There is no due date for the settlement of Renewable National Subsidies as the collection is subject to the allocation of funds by relevant government authorities to local grid companies, which takes a relatively long time for settlement. The expected credit loss is close to zero as continuous settlements have been noted with no history of default and the subsidy is funded by the Renewable Energy Development Fund set up and administered by the Ministry of Finance.

India

(i) Renewable receivables

At 31 December 2020, CLP India's renewable projects have trade receivables of HK$771 million (2019: HK$805 million) of which HK$680 million (2019: HK$704 million) were past due. The expected credit loss is close to zero as there are no history of default and continuous payments received. In addition, the offtakers are state-owned enterprises and the exposure is therefore considered a sovereign credit risk. Trade receivables in dispute are assessed individually for impairment allowance in order to determine whether specific provisions are required.

(ii) JPL – Disputed charges with offtakers

JPL has disputes with its offtakers over applicable tariff of capacity charges and energy charges relating to transit losses. At 31 December 2020, total disputed amounts were Rs3,105 million (HK$329 million) (2019: Rs3,034 million (HK$331 million)). The Group considers that JPL has a strong case and hence, no provision has been made.

In September 2013, JPL filed a petition to Central Electricity Regulatory Commission (CERC) against its offtakers. In 2016, CERC pronounced its judgment in favour of JPL, which supports the Group's decision that no provision should be made. The offtakers filed an appeal against the CERC's order in the Appellate Tribunal for Electricity (APTEL) and JPL filed an appeal challenging certain findings of the CERC. The APTEL hearing concluded on 16 June 2020 and the matter was reserved for judgment. However, the tenure of the Technical Member on the APTEL bench expired before the judgment was passed and the APTEL's bench had to be reconstituted. The matter will be reheard by the APTEL and is now listed for hearing in April 2021.

Other disputed receivables of HK$165 million (2019: HK$163 million) were provided in full as there is no reasonable expectation of recovery.

19. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Expected credit losses (continued)

India (continued)

(iii) Paguthan – Deemed generation incentive payment

The Supreme Court in India pronounced its judgment in May 2020 on the dispute for the "deemed generation incentive payments" between CLP India and its offtaker Gujarat Urja Vikas Nigam Limited (GUVNL). Both appeals by CLP India and GUVNL were dismissed. Accordingly, the amounts withheld by the offtaker of Rs3,796 million, for which a full provision was made, were written off in 2020. There was no financial impact to the Group's results and financial position, and no related contingent liabilities in respect of the time-barred portion of Rs4,737 million.

(b) The current accounts with joint ventures and associates are unsecured, interest free and have no fixed repayment terms.

20. Bank Balances, Cash and Other Liquid Funds

Accounting Policy

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible to cash, subjected to insignificant risk of change in value and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

	2020 HK$M	2019 HK$M
Trust accounts restricted under TRAA [a]	**536**	279
Deposits with banks	**8,627**	6,318
Cash at banks and on hand	**2,545**	1,729
Bank balances, cash and other liquid funds [b]	**11,708**	8,326
Excluding:		
Cash restricted for specific purposes [a]	**(536)**	(279)
Bank deposits with maturities of more than three months	**(1,014)**	(166)
Short-term deposits and restricted cash	**(1,550)**	(445)
Cash and cash equivalents	**10,158**	7,881

Notes:

(a) Pursuant to Trust and Retention Account Agreements (TRAA) of CLP India group with their corresponding lenders, various trust accounts are set up for designated purposes.

(b) The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currencies of the respective entities amounted to HK$352 million (2019: HK$380 million) which was mostly denominated in Renminbi (2019: Renminbi).

21. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to customers. Any variations between the actual cost of fuel and the fuel cost billed are captured in the fuel clause account. The balance of the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, while interest is credited to customers at prime rate on the amount over-recovered. CLP Power Hong Kong may adjust fuel related tariff from time to time, including on a monthly basis, in accordance with the SoC to reflect changes in the cost of fuels consumed by the SoC Companies for the generation of electricity.

22. Trade Payables and Other Liabilities

Accounting Policy

(A) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(B) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments with reference to an expected lease term, which includes optional lease periods when the lessee is reasonably certain to exercise the option to extend or not to terminate the lease. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

Lease payments are discounted using the interest rate implicit in the lease, if this cannot be readily determined, an incremental borrowing rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, over a similar term and with a similar security. Lease liabilities are subsequently measured by increasing the carrying amounts to reflect interest on the lease liabilities (using the effective interest method) and by reducing the carrying amounts to reflect the lease payments made. Lease liabilities are remeasured (with a corresponding adjustment made to the related right-of-use asset) when there is a change in future lease payments in case of renegotiation, changes of an index or rate or in case of reassessment of options under certain conditions.

	2020 HK$M	2019 HK$M
Trade payables [(a)]	**6,077**	5,850
Other payables and accruals	**7,136**	6,743
Lease liabilities [(b)]	**219**	99
Advances from non-controlling interests [(c)]	**1,021**	1,344
Current accounts with [(d)]		
Joint ventures	**1**	1
Associates	**583**	468
Deferred revenue [(e)]	**3,104**	3,081
	18,141	17,586

Notes:

(a) The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	2020 HK$M	2019 HK$M
30 days or below	**5,852**	5,580
31 – 90 days	**123**	172
Over 90 days	**102**	98
	6,077	5,850

At 31 December 2020, trade payables denominated in currencies other than the functional currencies of the corresponding Group entities amounted to HK$941 million (2019: HK$660 million), of which HK$786 million (2019: HK$488 million) were denominated in US dollar (2019: US dollar).

(b) At 31 December 2020, the non-current portion of lease liabilities of HK$1,192 million (2019: HK$208 million) was included under other non-current liabilities.

(c) The advances from non-controlling interests represented the advances from China Southern Power Grid International (HK) Co., Limited (CSGHK) to CAPCO. Pursuant to the agreement between the shareholders of CAPCO, both CLP Power Hong Kong and CSGHK are required to provide shareholders' advances pro rata to their shareholdings in CAPCO. The advances are unsecured, interest free and repayable on demand. The advances are denominated in Hong Kong dollar.

22. Trade Payables and Other Liabilities (continued)

Notes (continued):

(d) The amounts payable to joint ventures and associates are unsecured, interest free and have no fixed repayment terms.

(e) Deferred revenue included the non-refundable upfront payment for the property development at Argyle Street of HK$3 billion (2019: HK$3 billion) (Note 18) and payments received in advance for other services. Non-current deferred revenue of HK$1,434 million (2019: HK$1,295 million) was included under other non-current liabilities.

23. Bank Loans and Other Borrowings

Accounting Policy

Borrowings are recognised initially at fair value of proceeds received, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

The Group's bank loans and other borrowings at 31 December were repayable as follows:

	Bank Loans		Other Borrowings*		Total	
	2020	2019	**2020**	2019	**2020**	2019
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Within one year	**5,299**	9,331	**3,448**	4,220	**8,747**	13,551
Between one and two years	**4,321**	4,957	**1,536**	3,332	**5,857**	8,289
Between two to five years	**4,708**	4,395	**7,755**	6,015	**12,463**	10,410
Over five years	**3,115**	3,423	**24,166**	16,676	**27,281**	20,099
	17,443	22,106	**36,905**	30,243	**54,348**	52,349

* Other borrowings mainly included Medium Term Notes of HK$35,587 million (2019: HK$28,677 million) and bonds of HK$1,296 million (2019: HK$1,539 million).

Another presentation of the Group's liquidity risk is set out on pages 287 to 289.

Total borrowings at 31 December included secured liabilities of HK$10,676 million (2019: HK$10,654 million), analysed as follows:

	2020	2019
	HK$M	HK$M
CLP India group [(a)]	**5,322**	5,402
Subsidiaries in Mainland China [(b)]	**5,354**	5,252
	10,676	10,654

Notes:

(a) Bank loans and bonds for CLP India group are secured by fixed and floating charges over their immovable and movable properties and current assets with total carrying amounts of HK$11,918 million (2019: HK$11,878 million).

(b) Bank loans for subsidiaries in Mainland China are secured by rights of receipt of tariff and by fixed assets and land use rights with carrying amounts of HK$10,014 million (2019: HK$9,328 million).

At 31 December 2020 and 2019, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

At 31 December 2020, the Group had undrawn bank loans and overdraft facilities of HK$25,737 million (2019: HK$18,854 million).

24. Deferred Tax

Accounting Policy

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

	2020 HK$M	2019 HK$M
Deferred tax assets	**571**	524
Deferred tax liabilities	**(15,429)**	(15,117)
	(14,858)	(14,593)

Deferred tax asset = income tax recoverable in the future
Deferred tax liability = income tax payable in the future

The gross movement on the deferred tax account is as follows:

	2020 HK$M	2019 HK$M
Balance at 1 January	**(14,593)**	(13,815)
Acquisition of subsidiaries	**(9)**	(9)
Charged to profit or loss (Note 7)	**(464)**	(598)
Credited / (charged) to other comprehensive income	**164**	(166)
Exchange differences	**44**	(5)
Balance at 31 December	**(14,858)**	(14,593)

24. Deferred Tax (continued)

The movements in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year are as follows:

Deferred tax assets (prior to offset)

	Tax Losses [a]		Accruals and Provisions		Others [b]		Total	
	2020 HK$M	2019 HK$M	**2020 HK$M**	2019 HK$M	**2020 HK$M**	2019 HK$M	**2020 HK$M**	2019 HK$M
Balance at 1 January	**489**	844	**1,303**	1,394	**834**	867	**2,626**	3,105
Acquisition of subsidiaries	**3**	–	**–**	–	**–**	–	**3**	–
(Charged)/credited to profit or loss	**(63)**	(339)	**177**	(74)	**520**	(24)	**634**	(437)
Credited to other comprehensive income	**–**	–	**4**	1	**5**	8	**9**	9
Exchange differences	**(14)**	(16)	**125**	(18)	**77**	(17)	**188**	(51)
Balance at 31 December	**415**	489	**1,609**	1,303	**1,436**	834	**3,460**	2,626

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding Tax		Intangibles		Others [b]		Total	
	2020 HK$M	2019 HK$M	**2020 HK$M**	2019 HK$M	**2020 HK$M**	2019 HK$M	**2020 HK$M**	2019 HK$M	**2020 HK$M**	2019 HK$M
Balance at 1 January	**(15,339)**	(15,177)	**(284)**	(183)	**(795)**	(934)	**(801)**	(626)	**(17,219)**	(16,920)
Acquisition of subsidiaries	**(12)**	(9)	**–**	–	**–**	–	**–**	–	**(12)**	(9)
(Charged)/credited to profit or loss	**(833)**	(187)	**(32)**	(102)	**74**	138	**(307)**	(10)	**(1,098)**	(161)
(Charged)/credited to other comprehensive income	**–**	–	**(1)**	–	**–**	–	**156**	(175)	**155**	(175)
Exchange differences	**(52)**	34	**(5)**	1	**1**	1	**(88)**	10	**(144)**	46
Balance at 31 December	**(16,236)**	(15,339)	**(322)**	(284)	**(720)**	(795)	**(1,040)**	(801)	**(18,318)**	(17,219)

Notes:

(a) The deferred tax asset arising from tax losses related to the electricity business in India of HK$407 million (2019: HK$485 million). There is no expiry on tax losses recognised.

(b) Others mainly related to temporary differences arising from derivative financial instruments and lease accounting, and Minimum Alternate Tax credit in India.

25. SoC Reserve Accounts

Critical Accounting Estimates and Judgements: Classification of SoC-related Accounts

As stipulated in the SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities in the financial statements of CLP Power Hong Kong and shall not accrue to the benefit of its shareholders save as provided for by the SoC. CLP Power Hong Kong also has the obligation to maintain the Fuel Clause Account (Note 21). The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement such that these account balances meet the definition of a financial liability.

The Tariff Stabilisation Fund, Rate Reduction Reserve and Rent and Rates Refunds of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	2020 HK$M	2019 HK$M
Tariff Stabilisation Fund (A)	**2,019**	1,478
Rate Reduction Reserve (B)	**18**	22
Rent and Rates Refunds (C)	**337**	–
	2,374	1,500

25. SoC Reserve Accounts (continued)

The movements in SoC reserve accounts during the year are shown as follows:

(A) Tariff Stabilisation Fund

	2020 HK$M	2019 HK$M
At 1 January	**1,478**	941
Transfer from Rate Reduction Reserve	**22**	11
Transfer under the SoC [a]		
– transfer for SoC from revenue (Note 3)	**660**	714
– charge for asset decommissioning [b]	**(141)**	(188)
At 31 December	**2,019**	1,478

Notes:

(a) Under the SoC Agreement, if the gross tariff revenue in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as a revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss.

(b) Under the SoC, a periodic charge to accrue for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. The balance of the asset decommissioning liabilities account of HK$1,320 million (2019: HK$1,179 million) (Note 26) recognised under the SoC represents a liability of the Group.

(B) Rate Reduction Reserve

	2020 HK$M	2019 HK$M
At 1 January	**22**	11
Transfer to Tariff Stabilisation Fund	**(22)**	(11)
Interest expense charged to profit or loss (Note 6)	**18**	22
At 31 December	**18**	22

(C) Rent and Rates Refunds

CLP Power Hong Kong has been challenging the amount of Government rent and rates levied dating back to the year of assessment 2001/02. Following the settlement of appeals up to 2007/08 in 2018, CLP Power Hong Kong reached settlement with the Hong Kong Government in 2020 in respect of the appeals for rating years from 2008/09 to 2017/18, with final resolution for the remaining appeals from 2018/19 onwards still to be completed.

In addition to the interim refund of HK$300 million received earlier in 2020 for the appeal years 2008/09 to 2017/18, a further refund of HK$437 million was received later this year from the Hong Kong Government in full and final settlement for those years. These additional refunds bring the total amount of refunds received for all appeal years up to 2017/18 to HK$2,791 million. Using these refunds, CLP Power Hong Kong has provided customers with the Rent and Rates Special Rebate. Including the rebate of HK$400 million paid during the year, the Rent and Rates Special Rebate made by CLP Power Hong Kong has reached an aggregate of HK$2,454 million.

The refunds are classified within the SoC reserve accounts. The Rent and Rates Special Rebate paid to customers was offset against the refunds received.

26. Asset Decommissioning Liabilities and Retirement Obligations

Accounting Policy

When the Group has a legal and / or constructive obligation for remediation and the likelihood of economic outflow is probable, provisions for asset retirement obligations are recorded for estimated remediation costs of reclamation, plant closure, dismantling and waste disposal. A provision for asset retirement costs is determined by estimating the expected costs associated to remediate the site based on the current legal requirements and technologies and is discounted to its present value with an unwind adjustment recognised in finance costs. An asset is recognised on initial recognition of the provision and is depreciated over the useful life of the facility. The asset retirement costs are reviewed annually and adjustments are made to the carrying amount of the assets to reflect changes made to these estimated discount rates or future costs.

Critical Accounting Estimates and Judgements

Estimating the amount and timing of the obligation to be recorded requires significant judgement. Management has assessed the Group's obligations for each asset based on the local regulatory environment and expected closure dates.

CLP Power Hong Kong has been investing in the transmission and distribution network to supply electricity to the customers in its supply area in Hong Kong. As CLP Power Hong Kong expects that the land sites being used for the transmission and distribution network will continue to be used for the distribution of electricity supply to its customers, it is currently considered remote that the network would be removed from the existing land sites. Therefore in accordance with applicable accounting standards, asset retirement obligations for these assets have not been recognised by CLP Power Hong Kong.

As part of the new development plan agreed with the Hong Kong Government in 2018, CAPCO will retire the coal-fired generation units at Castle Peak "A" Station (CPA) between 2022 to 2025. Following this retirement, the removal of CPA's coal-fired generation units has become probable. It is also envisaged that with the Hong Kong Government's continued commitment to reduce carbon intensity, the removal of CAPCO's other fossil-fuel generation units from the existing land sites may be possible at some point of time in the future. Under the SoC, CAPCO makes a periodic charge to accrue in the statement of financial position a liability balance to be utilised in discharging asset decommissioning costs if and when incurred. CAPCO considers that the dismantling obligation for the CPA units is covered under the asset decommissioning liability accrued under the SoC as at 31 December 2020. While no provision for asset retirement obligations for the other generation units of CAPCO has been recognised, it is expected that if such an obligation be incurred, it will be met by the liability accrued and the cost recovery mechanism under the SoC.

Asset retirement obligations of EnergyAustralia amounted to HK$2,704 million (2019: HK$2,411 million) which mainly related to the provision for land remediation and decommissioning of generation assets. The provisions are largely based on estimates by external and internal experts that are discounted using internally determined end of plant lives. The calculation of the provision requires management judgement with respect to estimating the timing of asset removal, costs to remove infrastructure, remediate soil and groundwater, water usage and technological developments. On an ongoing basis, we continually review and update underlying assumptions relating to forward rehabilitation estimates and timelines.

26. Asset Decommissioning Liabilities and Retirement Obligations (continued)

	2020 HK$M	2019 HK$M
Asset decommissioning liabilities (Note 25(A)(b))	**1,320**	1,179
Provisions for land remediation and restoration costs (note)	**2,643**	2,334
	3,963	3,513

Note: The movements of the balances, including the current portion of HK$61 million (2019: HK$77 million) under the Group's trade payables and other liabilities, are as follows:

	2020 HK$M	2019 HK$M
Balance at 1 January	**2,411**	2,630
Additional provisions	**59**	11
Effect of changes in discount rate	**16**	3
Amounts used	**(40)**	(43)
Unused amounts reversed	**(27)**	(228)
Unwinding of discount	**56**	71
Exchange differences	**229**	(33)
Balance at 31 December	**2,704**	2,411

27. Share Capital

	2020		2019	
	Number of Ordinary Shares	**Amount HK$M**	Number of Ordinary Shares	Amount HK$M
Issued and fully paid, at 31 December	**2,526,450,570**	**23,243**	2,526,450,570	23,243

28. Reserves

The movements in reserves attributable to shareholders during the year are shown as follows:

	Translation Reserve HK$M	Cash Flow Hedge Reserve HK$M	Cost of Hedging Reserve HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2019	(7,429)	404	(43)	1,567	91,311	85,810
Earnings attributable to shareholders	–	–	–	–	4,657	4,657
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	(586)	(2)	–	–	2	(586)
Joint ventures	(136)	–	–	–	–	(136)
Associates	(131)	–	–	–	–	(131)
Cash flow hedges						
Net fair value gains	–	797	–	–	–	797
Reclassification to profit or loss	–	(199)	–	–	–	(199)
Tax on the above items	–	(171)	–	–	–	(171)
Costs of hedging						
Net fair value losses	–	–	(74)	–	–	(74)
Reclassification to profit or loss	–	–	79	–	–	79
Tax on the above items	–	–	(1)	–	–	(1)
Fair value gains on investments	–	–	–	31	–	31
Remeasurement losses on defined benefit plans	–	–	–	–	(4)	(4)
Share of other comprehensive income of joint ventures	–	1	–	–	–	1
Total comprehensive income attributable to shareholders	(853)	426	4	31	4,655	4,263
Transfer to fixed assets	–	1	–	–	–	1
Appropriation of reserves	–	–	–	14	(14)	–
Dividends paid						
2018 fourth interim	–	–	–	–	(3,007)	(3,007)
2019 first to third interim	–	–	–	–	(4,775)	(4,775)
Acquisition of non-controlling interests	–	–	–	10	–	10
Reclassification of perpetual capital securities to other borrowings	–	–	–	–	(90)	(90)
Balance at 31 December 2019	(8,282)	831	(39)	1,622	88,080 (note)	82,212

Translation reserve – exchange rates movements arising from the consolidation of Group entities with different reporting currencies

Cash flow hedge / Cost of hedging reserve – deferred fair value gains / losses on derivative financial instruments which are qualified for hedge accounting; reclassify to profit or loss when settlement of derivatives or when amortisation of costs of hedging

Other reserves – mainly comprise revaluation reserve, other consolidated reserve arising from change in ownership interests in a subsidiary, and other legal reserves allocated from retained profits to meet local statutory and regulatory requirements of Group entities

28. Reserves (continued)

	Translation Reserve HK$M	Cash Flow Hedge Reserve HK$M	Cost of Hedging Reserve HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2020	(8,282)	831	(39)	1,622	88,080	82,212
Earnings attributable to shareholders	–	–	–	–	11,456	11,456
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	2,655	35	–	–	(35)	2,655
Joint ventures	647	–	–	–	–	647
Associates	446	–	–	–	–	446
Cash flow hedges						
Net fair value losses	–	(886)	–	–	–	(886)
Reclassification to profit or loss	–	(41)	–	–	–	(41)
Tax on the above items	–	176	–	–	–	176
Costs of hedging						
Net fair value gains	–	–	132	–	–	132
Reclassification to profit or loss	–	–	31	–	–	31
Tax on the above items	–	–	(26)	–	–	(26)
Fair value losses on investments	–	–	–	(58)	–	(58)
Remeasurement losses on defined benefit plans	–	–	–	–	(7)	(7)
Share of other comprehensive income of joint ventures	–	2	–	–	–	2
Total comprehensive income attributable to shareholders	3,748	(714)	137	(58)	11,414	14,527
Transfer to fixed assets	–	1	(1)	–	–	–
Appropriation of reserves	–	–	–	(35)	35	–
Dividends paid						
2019 fourth interim	–	–	–	–	(3,007)	(3,007)
2020 first to third interim	–	–	–	–	(4,775)	(4,775)
Balance at 31 December 2020	**(4,534)**	**118**	**97**	**1,529**	**91,747** (note)	**88,957**

Note: The fourth interim dividend declared for the year ended 31 December 2020 was HK$3,057 million (2019: HK$3,007 million). The balance of retained profits after the fourth interim dividend of the Group was HK$88,690 million (2019: HK$85,073 million).

29. Perpetual Capital Securities and Redeemable Shareholder Capital

(A) Perpetual Capital Securities

A total of US$500 million perpetual capital securities was issued by the wholly owned subsidiary, CLP Power HK Finance Ltd. (CLPPHKFL) on 6 November 2019. The securities are perpetual, non-callable in the first 5.25 years (with issuer call option at par at any time in the 3 months before 5 February 2025) and entitle the holders to receive distributions at a distribution rate of 3.55% per annum in the first 5.25 years, floating thereafter and with fixed step up margins at year 10.25 and at year 25.25, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group's discretion, as long as the issuer and CLP Power Hong Kong, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capitals within each distribution payment period.

29. Perpetual Capital Securities and Redeemable Shareholder Capital (continued)

(B) Other Non-controlling Interests

Other non-controlling interests included CSGHK's pro-rata share of HK$5,115 million (2019: HK$5,115 million) of redeemable shareholder capital of CAPCO. The redeemable shareholder capital is subordinated, unsecured, interest free and has no fixed terms of repayment. CAPCO can, at its sole discretion, redeem all or part of the redeemable shareholder capital at any time after 31 December 2032.

As both the perpetual capital securities and redeemable shareholder capital do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and regarded as part of non-controlling interests for accounting purpose.

30. Notes to the Consolidated Statement of Cash Flows

(A) Reconciliation of profit before income tax to net cash inflow from operations

	2020 HK$M	2019 HK$M
Profit before income tax	**15,501**	8,541
Adjustments for:		
Finance costs	**1,873**	1,983
Finance income	**(136)**	(162)
Dividend income from equity investments	**(13)**	(13)
Share of results of joint ventures and associates, net of income tax	**(2,522)**	(2,713)
Depreciation and amortisation	**8,476**	8,118
Impairment charge	**599**	6,782
Net loss on disposal of fixed assets	**358**	424
Revaluation loss on investment property	**121**	83
Fair value changes of non-debt related derivative financial instruments and net exchange difference	**(1,150)**	(230)
SoC items		
Increase in customers' deposits	**218**	203
(Decrease) / increase in fuel clause account	**(817)**	186
Net increase / (decrease) in rent and rates refunds	**337**	(46)
Transfer for SoC	**660**	714
	398	1,057
(Increase) / decrease in trade receivables and other current assets	**(144)**	341
(Increase) / decrease in cash restricted for specific purposes	**(257)**	119
Changes in non-debt related derivative financial instruments	**660**	(56)
Increase / (decrease) in trade and other payables	**535**	(725)
Increase / (decrease) in current accounts due to joint ventures and associates	**119**	(47)
Net cash inflow from operations	**24,418**	23,502

30. Notes to the Consolidated Statement of Cash Flows (continued)

(B) Reconciliation of liabilities arising from financing activities

	Bank Loans and Other Borrowings HK$M	Interest and Other Finance Costs Payables HK$M	Lease Liabilities HK$M	Debt-related Derivative Financial Instruments HK$M	Advances from Non-controlling Interests HK$M	Total HK$M
Balance at 1 January 2019	55,298	263	257	757	1,522	58,097
Cash flows changes						
Proceeds from long-term borrowings	6,410	–	–	–	–	6,410
Repayment of long-term borrowings	(8,796)	–	–	–	–	(8,796)
Redemption of perpetual capital securities	(5,874)	–	–	–	–	(5,874)
Decrease in short-term borrowings	(968)	–	–	–	–	(968)
Payment of principal portion of lease liabilities	–	–	(126)	–	–	(126)
Interest and other finance costs paid	–	(1,771)	–	–	–	(1,771)
Settlement of derivative financial instruments	–	–	–	(50)	–	(50)
Decrease in advances from non-controlling interests	–	–	–	–	(178)	(178)
Non-cash changes						
Acquisitions of subsidiaries	381	2	–	–	–	383
Fair value losses of derivative financial instruments charged to equity	–	–	–	138	–	138
Additions of leases	–	–	164	–	–	164
Net exchange and translation differences	(28)	–	(4)	6	–	(26)
Interest and other finance costs charged/(credited) to profit or loss	–	1,747	16	(277)	–	1,486
Reclassification from perpetual capital securities	5,881	–	–	–	–	5,881
Other non-cash movements	45	(16)	–	–	–	29
Balance at 31 December 2019	52,349	225	307	574	1,344	54,799
Balance at 1 January 2020	52,349	225	307	574	1,344	54,799
Cash flows changes						
Proceeds from long-term borrowings	14,004	–	–	–	–	14,004
Repayment of long-term borrowings	(12,309)	–	–	–	–	(12,309)
Decrease in short-term borrowings	(959)	–	–	–	–	(959)
Payment of principal portion of lease liabilities	–	–	(200)	–	–	(200)
Interest and other finance costs paid	–	(1,820)	–	–	–	(1,820)
Settlement of derivative financial instruments	–	–	–	149	–	149
Decrease in advances from non-controlling interests	–	–	–	–	(323)	(323)
Non-cash changes						
Acquisitions of subsidiaries	473	5	5	–	–	483
Fair value losses of derivative financial instruments charged to equity	–	–	–	424	–	424
Additions of leases	–	–	1,146	–	–	1,146
Net exchange and translation differences	754	3	124	(24)	–	857
Interest and other finance costs charged/(credited) to profit or loss	–	1,684	37	(293)	–	1,428
Other non-cash movements	36	37	(8)	–	–	65
Balance at 31 December 2020	**54,348**	**134**	**1,411**	**830**	**1,021**	**57,744**

31. Commitments

(A) Capital expenditure contracted for but not yet incurred at the end of the year is as follows:

	2020 HK$M	2019 HK$M
Fixed assets and leasehold land	**7,909**	6,571
Intangible assets	**21**	9
	7,930	6,580

(B) The Group has committed to purchase power transmission assets in India at a consideration of approximately HK$800 million (2019: HK$1.3 billion). At 31 December 2020, the transaction remains subject to certain regulatory approvals. In addition, equity contributions to be made for joint ventures and private equity partnerships at 31 December 2020 were HK$71 million (2019: HK$75 million) and HK$183 million (2019: HK$115 million) respectively.

32. Related Party Transactions

Accounting Policy

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, joint ventures, associates and key management personnel, where the individual or company has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. A close family member of any such individual is considered to be a related party.

Related Parties ≠ Connected Parties
They sometimes overlap but should not be confused. Accounting standards define related parties, while the Listing Rules of the Hong Kong Stock Exchange define connected parties.

Below are the more significant transactions with related parties for the year:

(A) CLP Power Hong Kong is obliged to purchase 70% of the output from Guangdong Daya Bay Nuclear Power Station (GNPS). The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the PPAs is determined by a formula based on GNPS's operating costs and a calculation of profits with reference to the capacity factors. The purchase of nuclear electricity under the arrangement was HK$5,582 million (2019: HK$5,643 million).

Under separate purchase arrangements with GNPJVC and its shareholder, Guangdong Nuclear Investment Company Limited, CLP Power Hong Kong would purchase approximately 10% of additional nuclear electricity from GNPS on a best endeavour basis from October 2014 to end of 2023, at the same unit price as that under the above purchase arrangement. The purchase of nuclear electricity under the arrangements was HK$798 million (2019: HK$813 million).

(B) The loans and shareholder's loan facilities to joint ventures are disclosed under Note 14. Other amounts due from and to the related parties at 31 December 2020 are disclosed in Notes 19 and 22 respectively. At 31 December 2020, the Group did not have any guarantees which were of a significant amount given to or received from these entities (2019: nil).

32. Related Party Transactions (continued)

(C) Remuneration of key management personnel

Under HKAS 24 Related Party Disclosures, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group. The total remuneration of the key management personnel shown below comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include two (2019: two) Executive Directors and nine (2019: nine) senior management personnel.

	2020 HK$M	2019 HK$M
Fees	**12**	12
Recurring remuneration items (note)		
Base compensation, allowances & benefits	**69**	66
Performance bonus		
Annual incentive	**55**	61
Long-term incentive	**39**	53
Provident fund contribution	**13**	13
Non-recurring remuneration items (note)		
Other payments	**–**	9
	188	214

Note: Refer to remuneration items on page 181 of Human Resources & Remuneration Committee Report.

At 31 December 2020, the CLP Holdings' Board was composed of twelve Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$58 million (2019: HK$61 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included two Directors (2019: two Directors) and three members (2019: three members) of Senior Management. The total remuneration of these five highest paid individuals amounted to HK$106 million (2019: HK$116 million). Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in highlighted sections of the Human Resources & Remuneration Committee Report with a heading of "Audited" on pages 180 to 183 and 189 to 191. These sections are part of the financial statements.

(D) Interest of Directors

There are no loans, quasi-loans or other dealings in favour of directors, their controlled body corporates and connected entities (2019: nil).

During the year and at the year end, no director of the Company had or has a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Group's business to which the Group was or is a party (2019: nil).

33. Contingent Liabilities

Accounting Policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in finance costs.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

33. Contingent Liabilities (continued)

Critical Accounting Estimates and Judgements

The Group is exposed to the risk of litigation, regulatory judgments and contractual disputes in the course of its normal operations. The Group considers each instance separately in accordance with legal advice and will make provision and / or disclose information as appropriate. Changes in the assumptions around the likelihood of an outflow of economic resources or the estimation of any obligation would change the values recognised in the financial statements.

(A) EnergyAustralia – Disposal of Iona Gas Plant

In December 2015, EnergyAustralia completed the disposal of its entire interest in the Iona Gas Plant for a total consideration of A$1,780 million (HK$9,991 million). On 19 May 2017, EnergyAustralia received a Statement of Claim issued by Lochard Energy (Iona Operations Holding) Pty Ltd, the purchaser of the Iona Gas Plant, and certain related entities (together "the plaintiff"), commencing formal legal proceedings seeking A$967 million (approximately HK$5,754 million) or alternatively A$780 million (approximately HK$4,641 million) in damages (plus interest and costs). The claims allege that certain information regarding the technical performance of the Iona Gas Plant, and on which the plaintiff claims to have relied to make its offer, were incomplete or misleading.

On 6 May 2019, an amended Statement of Claim was issued by the plaintiff which introduced (as a third alternative method of quantifying its damages) a damages claim based on the cost to fix the alleged issues with the plant as well as alleged associated losses and costs. The plaintiff made further amendments to its Statement of Claim in 2020. In further particulars filed in February 2021, the plaintiff has indicated that it now estimates the amount of:

(a) its original claim to be in the range of A$457 million to A$1,449 million (approximately HK$2,719 million to HK$8,622 million); and

(b) its alternative claim to be in the range of A$289 million to A$370 million (approximately HK$1,720 million to HK$2,202 million),

(plus interest and costs). Each estimate is based on a range of specified assumptions.

The trial for this proceeding has been set down to commence in May 2021. Prior to this, the parties are required to participate in a mediation which is scheduled in March 2021.

EnergyAustralia has rejected the claims and is vigorously defending the legal proceedings. On the basis of currently available information, the Directors' view is that a material outflow of economic benefits is unlikely and no provision has been made in the financial statements.

(B) Indian Wind Power Projects – WWIL's Contracts

CLP India group has invested in approximately 533MW of wind power projects developed with Wind World India Limited (WWIL). WWIL's major shareholder, Enercon GmbH, commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 31 December 2020, the Group considers that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

Details relating to the disputed receivables of Jhajjar and Paguthan can be found in Note 19(a) on pages 264 to 265.

34. Statement of Financial Position of the Company

	2020 HK$M	2019 HK$M
Non-current assets		
Fixed assets	**175**	112
Right-of-use assets	**89**	113
Investments in subsidiaries	**45,260**	46,857
Other non-current assets	**12**	14
	45,536	47,096
Current assets		
Trade and other receivables	**82**	81
Dividend receivable	**2,500**	1,950
Cash and cash equivalents	**7**	8
	2,589	2,039
Current liabilities		
Trade payables and other liabilities	**(525)**	(487)
Net current assets	**2,064**	1,552
Total assets less current liabilities	**47,600**	48,648
Financed by:		
Equity		
Share capital	**23,243**	23,243
Retained profits	**24,308**	25,328
Shareholders' funds	**47,551**	48,571
Non-current liabilities		
Lease and other liabilities	**49**	77
Equity and non-current liabilities	**47,600**	48,648
The movement of retained profits is as follows:		
Balance at 1 January	**25,328**	27,133
Profit and total comprehensive income for the year	**6,762**	5,977
Dividends paid		
2019/2018 fourth interim	**(3,007)**	(3,007)
2020/2019 first to third interim	**(4,775)**	(4,775)
Balance at 31 December	**24,308**	25,328

The fourth interim dividend declared for the year ended 31 December 2020 was HK$3,057 million (2019: HK$3,007 million). The balance of retained profits after the fourth interim dividend of the Company was HK$21,251 million (2019: HK$22,321 million).

The Honourable Sir Michael Kadoorie
Chairman

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

Hong Kong, 22 February 2021

35. Subsidiaries

The table below lists the principal subsidiaries of the Group at 31 December 2020:

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2019 and 2020	Place of Incorporation / Business	Principal Activity
CLP Power Hong Kong Limited	HK$20,400,007,269.65 divided into 2,488,320,000 ordinary shares	100	Hong Kong	Generation and supply of electricity
Castle Peak Power Company Limited	HK$50,000,000 divided into 500,000 ordinary shares	70 [(a)]	Hong Kong	Generation and sale of electricity
Hong Kong Pumped Storage Development Company, Limited	HK$10,000,000 divided into 100,000 ordinary shares	100 [(a)]	Hong Kong	Provision of pumped storage services
Hong Kong Nuclear Investment Company Limited	HK$300,000,000 divided into 300,000 ordinary shares	100	Hong Kong / Mainland China	Power projects investment holding
CLP Nuclear Investment Company Limited	1 ordinary share of US$1 each	100	Hong Kong / British Virgin Islands	Power projects investment holding
CLP*e* Solutions Limited	HK$49,950,000 divided into 4,995 ordinary shares	100	Hong Kong	Energy and infrastructure solutions
CLP Power Asia Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands / International and Mainland China	Power projects investment holding
CLP Power International Limited	692,000 ordinary shares of US$1,000 each	100 [(a)]	British Virgin Islands / International	Power projects investment holding
CLP Power China Limited	192,000,000 ordinary shares of US$1 each	100 [(a)]	British Virgin Islands / Mainland China and Hong Kong	Power projects investment holding
CLP Properties Limited	HK$150,000,000 divided into 15,000,000 ordinary shares	100	Hong Kong	Property investment holding
CLP Innovation Enterprises Limited	1 ordinary share of HK$1 each	100	Hong Kong	Innovation projects investment holding
EnergyAustralia Holdings Limited	1,585,491,005 ordinary shares of A$1 each	100 [(a)]	Australia	Energy business investment holding
EnergyAustralia Yallourn Pty Ltd	15 ordinary shares of A$1 each	100 [(a)]	Australia	Generation and supply of electricity
EnergyAustralia Pty Ltd	3,368,686,988 ordinary shares of A$1 each	100 [(a)]	Australia	Retailing of electricity and gas
EnergyAustralia NSW Pty Ltd	2 ordinary shares of A$1 each	100 [(a)]	Australia	Generation of electricity

35. Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2019 and 2020	Place of Incorporation / Business	Principal Activity
CLP India Private Limited	2,842,691,612 equity shares of Rs10 each	60 [(a)]	India	Generation of electricity and power projects investment holding
Jhajjar Power Limited	20,000,000 equity shares of Rs10 each; 2,324,882,458 compulsory convertible preference shares of Rs10 each	60 [(a)]	India	Generation of electricity
CLP Sichuan (Jiangbian) Power Company Limited [(b)]	RMB496,380,000	100 [(a)]	Mainland China	Generation of electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited [(c)]	RMB69,098,976	84.9 [(a)]	Mainland China	Generation of electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited [(c)]	RMB249,430,049	84.9 [(a)]	Mainland China	Generation of electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited [(c)]	US$13,266,667	84.9 [(a)]	Mainland China	Generation of electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited [(c)]	RMB141,475,383	84.9 [(a)]	Mainland China	Generation of electricity

Notes:

(a) Indirectly held through subsidiaries of the Company

(b) Registered as a Wholly Foreign Owned Enterprise under PRC law

(c) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

35. Subsidiaries (continued)

Summarised financial information of CAPCO and CLP India, which have material non-controlling interests, is set out below:

	CAPCO		CLP India	
	2020	2019	**2020**	2019
	HK$M	HK$M	**HK$M**	HK$M
Results for the year				
Revenue	**17,674**	16,814	**3,616**	4,651
Profit for the year	**2,859**	2,745	**357**	267
Other comprehensive income for the year	**(121)**	57	**(282)**	(259)
Total comprehensive income for the year	**2,738**	2,802	**75**	8
Dividends paid to non-controlling interests	**855**	785	**–**	–
Net assets				
Non-current assets	**35,461**	34,151	**10,476**	10,828
Current assets	**7,051**	5,580	**3,984**	3,636
Current liabilities	**(8,666)**	(11,785)	**(2,057)**	(1,835)
Non-current liabilities	**(15,967)**	(9,953)	**(4,028)**	(4,321)
	17,879	17,993	**8,375**	8,308
Cash flows				
Net cash inflow from operating activities	**3,127**	3,843	**1,381**	1,570
Net cash (outflow) / inflow from investing activities	**(1,769)**	50	**(267)**	(140)
Net cash outflow from financing activities	**(656)**	(3,373)	**(742)**	(1,352)
Net increase in cash and cash equivalents	**702**	520	**372**	78

Financial Risk Management

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value and cash flow interest rate risks, and energy portfolio risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and energy price fluctuations on the Group's financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. All derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations is carried out by the Group's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance & General Committee of relevant Group entities. Overseas subsidiaries conduct their risk management activities in accordance with policies approved by their respective Boards. Group Treasury identifies, evaluates and monitors financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

Foreign exchange risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities and net investments in foreign operations. This is primarily with respect to Australian dollar, Renminbi and Indian rupee. Additionally, the Group has significant foreign currency obligations relating to its foreign currency denominated debts and major capital project payments, US dollar denominated nuclear power purchase offtake commitments and other fuel related payments. The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities which are denominated in a currency that is not the functional currency of the respective Group entity. Hedging is only considered for firm commitments and highly probable forecast transactions.

SoC Companies

Under the SoC, the SoC Companies are allowed to pass-through foreign exchange gains and losses arising from future non-capital projects related commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollar, thus retaining no significant foreign exchange risk of such payments over the long term. The SoC Companies use forward contracts and currency swaps to hedge all their debt repayment obligations denominated in foreign currencies for the full tenor, and a significant portion of their US dollar obligations on fuel and nuclear power purchases, provided that for US dollar the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK$7.8: US$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs. The SoC Companies also use forward contracts to manage the foreign exchange risks of non-Hong Kong dollar payment obligations for major capital projects, for which the exchange gains and losses are capitalised.

At the end of the reporting period, the fair value movement of the derivative financial instruments in a cash flow hedge relationship is recorded in equity. The extent of the impact to the cash flow hedge reserve under equity due to exchange rate movements, with all other variables held constant, is as follows:

	2020 HK$M	2019 HK$M
Increase/(decrease) in the cash flow hedge reserve		
Hong Kong dollar against US dollar		
If Hong Kong dollar weakened by 0.6% (2019: 0.6%)	**92**	98
If Hong Kong dollar strengthened by 0.6% (2019: 0.6%)	**(92)**	(98)

The Group's Asia-Pacific Investments

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks.

The Group closely monitors translation risk using a Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. At 31 December 2020, the Group's net investment subject to translation exposure was HK$65,577 million (2019: HK$60,664 million), arising mainly from our investments in Mainland China, India, Southeast Asia and Taiwan and Australia. This means that, for each 1% (2019: 1%) average foreign currency movement, our translation exposure will vary by about HK$656 million (2019: HK$607 million). All the translation exposures are recognised in other comprehensive income and therefore have no impact on our profit or loss.

1. Financial Risk Factors (continued)

Foreign exchange risk (continued)

The Group's Asia-Pacific Investments (continued)

We consider that the non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Each overseas subsidiary and project company has developed its own hedging programme into local currency taking into consideration any indexing provision in project agreements, tariff reset mechanisms, lender requirements, and tax and accounting implications.

Most foreign currency exposures of the Group entities are hedged and / or their transactions are predominantly conducted through the functional currency of the respective entity. The following analysis presents the Group's (apart from the SoC Companies) sensitivity to a reasonably possible change in the functional currencies of the Group entities against the US dollar and Renminbi, with all other variables held constant. The sensitivity rates in US dollar and Renminbi used are considered reasonable given the current level of exchange rates and the volatility observed in the different functional currencies of the Group entities. These are both on a historical basis and market expectations for future movement at the end of the reporting period and under the economic environments in which the Group operates. The extent of the impact to post-tax profit or equity due to exchange rate movements of US dollar and Renminbi against different functional currencies of Group entities, with all other variables held constant, is as follows:

	2020 HK$M	2019 HK$M
US dollar		
If US dollar strengthened by 3% (2019: 3%)		
Post-tax profit for the year	**17**	25
Equity – cash flow hedge reserve	**13**	21
If US dollar weakened by 3% (2019: 3%)		
Post-tax profit for the year	**(17)**	(25)
Equity – cash flow hedge reserve	**(13)**	(21)
Renminbi		
If Renminbi strengthened by 3% (2019: 3%)		
Post-tax profit for the year	**12**	13
Equity – cash flow hedge reserve	**–**	–
If Renminbi weakened by 3% (2019: 3%)		
Post-tax profit for the year	**(12)**	(13)
Equity – cash flow hedge reserve	**–**	–

Energy portfolio risk

EnergyAustralia's activity in energy markets exposes it to financial risk.

The electricity market is a competitive power pool. In this market generation supply and retail demand are exposed to spot (half-hour) prices. EnergyAustralia purchases and sells majority of its electricity through the pool, at the same time EnergyAustralia enters into electricity spot-price-linked derivative financial instruments to manage the spot electricity price risk against forecast retail and generation exposures.

The gas market is a balancing market. To meet retail demand, EnergyAustralia procures gas supply agreements from various gas producers. The contract prices of certain agreements comprise a fixed component, and a variable component that is linked to oil spot prices on the global markets. EnergyAustralia enters into oil-price-linked derivative financial instruments to manage this oil price risk component.

1. Financial Risk Factors (continued)

Energy portfolio risk (continued)

Energy portfolio exposure is managed through an established risk management framework. The framework consists of policies which place appropriate limits on overall energy market exposures, hedging strategies and targets, delegations of authority on trading, approved product lists, regular exposure reporting, and segregation of duties. Risk monitoring includes physical position reporting, stress testing of the portfolios and "at-risk" analyses of potential earnings. At-risk measures are derived by modelling potential variability in spot and forward market prices and supply and demand volumes, across the wholesale energy portfolio, through Monte Carlo simulations, historic simulations, and scenarios.

The corporate governance process also includes oversight by an Audit & Risk Committee (ARC-EA) which acts on behalf of EnergyAustralia's Board.

Overall Earnings-at-Risk (EaR) exposure for the coming financial year is reported as the 1 in 4 probability downside (2019: 1 in 4 probability downside) of the expected earnings distribution, as simulated with the methods explained above. The energy portfolio risk exposure for EnergyAustralia as at 31 December 2020 was HK$430 million (2019: HK$550 million). The change in risk exposure is the result of the decrease in 2021 forward prices.

Interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The risks are managed by monitoring an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swaps.

The appropriate level of the fixed / floating mix is determined for each operating company subject to a regular review. For instance, SoC Companies conducts an annual review to determine a preferred fixed / floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications.

The sensitivity analysis below presents the effects on the Group's post-tax profit for the year (as a result of change in interest expense on floating rate borrowings) and equity (as a result of change in the fair value of derivative instruments which qualify as cash flow hedges). Such amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss, and offset one another in the profit or loss.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the end of the reporting period. For floating rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity to interest rates used is considered reasonable given the market forecasts available at the end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

	2020 HK$M	2019 HK$M
Hong Kong dollar		
If interest rates were 0.1% (2019: 0.7%) higher		
Post-tax profit for the year	**(10)**	(98)
Equity – cash flow hedge reserve	**5**	30
If interest rates were 0.1% (2019: 0.7%) lower		
Post-tax profit for the year	**10**	98
Equity – cash flow hedge reserve	**(5)**	(30)

1. Financial Risk Factors (continued)

Interest rate risk (continued)

	2020 HK$M	2019 HK$M
Indian rupee		
If interest rates were 0.3% (2019: 0.3%) higher		
Post-tax profit for the year	**(4)**	(3)
Equity – cash flow hedge reserve	**–**	–
If interest rates were 0.3% (2019: 0.3%) lower		
Post-tax profit for the year	**4**	3
Equity – cash flow hedge reserve	**–**	–
US dollar		
If interest rates were 0.05% (2019: 0.3%) higher		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**2**	9
If interest rates were 0.05% (2019: 0.3%) lower		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**(2)**	(9)
Renminbi		
If interest rates were 0.2% (2019: 0.1%) higher		
Post-tax profit for the year	**(9)**	(5)
Equity – cash flow hedge reserve	**–**	–
If interest rates were 0.2% (2019: 0.1%) lower		
Post-tax profit for the year	**9**	5
Equity – cash flow hedge reserve	**–**	–

Credit risk

The Group's approach to managing credit risk for trade receivables is discussed in Note 19.

On the treasury side, all finance-related hedging transactions and bank deposits of the Group entities are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies and scrutiny of the financial position of non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movement, the Group also monitors potential exposures to each financial institution counterparty, using VaR methodology. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, joint ventures and associates without recourse to the Company.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments, new investments and close out market positions if required. The Group maintains significant flexibility to respond to opportunities and events by ensuring that committed credit lines are available to meet future funding requirements. In addition, CLP Power Hong Kong will fund its committed contractual maturities through cash flows earned under the terms of the SoC and financing available under its credit lines and MTN programme. Management also monitors rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

1. Financial Risk Factors (continued)

Liquidity risk (continued)

The table below analyses the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, derivative financial liabilities (both net settled and gross settled) and derivative financial assets (gross settled) based on the contractual undiscounted cash flows.

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
At 31 December 2020					
Non-derivative financial liabilities					
Bank loans	5,758	4,681	5,149	3,531	19,119
Other borrowings	4,612	2,510	10,070	26,805	43,997
Customers' deposits	5,908	–	–	–	5,908
Fuel clause account	346	–	–	–	346
Trade payables and other liabilities	15,039	260	574	578	16,451
SoC reserve accounts	–	–	–	2,374	2,374
Asset decommissioning liabilities	–	–	–	1,320	1,320
	31,663	7,451	15,793	34,608	89,515
Derivative financial liabilities – net settled					
Interest rate swaps	63	55	50	22	190
Energy contracts	677	618	512	27	1,834
	740	673	562	49	2,024
Derivative financial liabilities – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	17,028	329	4,022	–	21,379
Cross currency interest rate swaps	1,366	952	2,712	12,568	17,598
	18,394	1,281	6,734	12,568	38,977
Gross contractual amounts receivable					
Forward foreign exchange contracts	(16,954)	(304)	(3,953)	–	(21,211)
Cross currency interest rate swaps	(1,053)	(768)	(2,478)	(12,310)	(16,609)
	(18,007)	(1,072)	(6,431)	(12,310)	(37,820)
Net payable	387	209	303	258	1,157
Derivative financial assets – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	705	183	361	–	1,249
Cross currency interest rate swaps	2,683	287	5,410	7,319	15,699
	3,388	470	5,771	7,319	16,948
Gross contractual amounts receivable					
Forward foreign exchange contracts	(760)	(206)	(465)	–	(1,431)
Cross currency interest rate swaps	(2,802)	(366)	(5,546)	(7,417)	(16,131)
	(3,562)	(572)	(6,011)	(7,417)	(17,562)
Net receivable	(174)	(102)	(240)	(98)	(614)
Total payable	213	107	63	160	543

1. Financial Risk Factors (continued)

Liquidity risk (continued)

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
At 31 December 2019					
Non-derivative financial liabilities					
Bank loans	10,116	5,415	5,028	3,961	24,520
Other borrowings	5,286	4,283	8,131	18,741	36,441
Customers' deposits	5,679	–	–	–	5,679
Fuel clause account	1,131	–	–	–	1,131
Trade payables and other liabilities	14,514	51	75	111	14,751
SoC reserve accounts	–	–	–	1,500	1,500
Asset decommissioning liabilities	–	–	–	1,179	1,179
	36,726	9,749	13,234	25,492	85,201
Derivative financial liabilities – net settled					
Interest rate swaps	17	14	33	16	80
Energy contracts	819	166	157	119	1,261
	836	180	190	135	1,341
Derivative financial liabilities – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	12,741	264	313	3,933	17,251
Cross currency interest rate swaps	349	1,285	5,332	3,566	10,532
	13,090	1,549	5,645	7,499	27,783
Gross contractual amounts receivable					
Forward foreign exchange contracts	(12,692)	(237)	(279)	(3,894)	(17,102)
Cross currency interest rate swaps	(273)	(951)	(5,021)	(3,437)	(9,682)
	(12,965)	(1,188)	(5,300)	(7,331)	(26,784)
Net payable	125	361	345	168	999
Derivative financial assets – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	7,902	134	474	–	8,510
Cross currency interest rate swaps	4,211	2,600	604	7,087	14,502
	12,113	2,734	1,078	7,087	23,012
Gross contractual amounts receivable					
Forward foreign exchange contracts	(8,182)	(155)	(590)	–	(8,927)
Cross currency interest rate swaps	(4,307)	(2,660)	(623)	(7,214)	(14,804)
	(12,489)	(2,815)	(1,213)	(7,214)	(23,731)
Net receivable	(376)	(81)	(135)	(127)	(719)
Total (receivable) / payable	(251)	280	210	41	280

2. Hedge Accounting

The Group seeks to apply, wherever possible, hedge accounting to present its financial statements in accordance with the economic purpose of the hedging activity. The Group determines the economic relationship between the hedged items and the hedging instruments by reviewing their critical terms. As a result, the Group concludes that the risk being hedged for the hedged items and the risk inherent in the hedging instruments are sufficiently aligned. There is no inherent mismatch in the hedging relationships. Certain ineffectiveness can arise during the hedging process. The main sources of hedge ineffectiveness are considered to be the effects of re-designation of the hedging relationships and the counterparty credit risks on the hedging instruments.

Hedges on debt related transactions

The Group applies various types of derivative financial instruments (forward foreign currency contracts, foreign currency options, cross currency interest rate swaps and interest rate swaps) to mitigate exposures arising from the fluctuations in foreign currencies and/or interest rates of debt. In most of the cases, the hedging instruments have a one-to-one hedge ratio with the hedged items. In view of the nature of the hedging activities, no significant ineffectiveness is expected at inception.

Hedges on non-debt related transactions

The SoC Companies use forward contracts to manage its foreign exchange risk arising from fuel and nuclear purchases obligations, and payments for major capital projects. The SoC Companies hedge a high portion of committed and highly probable forecast transactions.

EnergyAustralia uses electricity spot-price-linked forward contracts and oil-price-linked forward contracts to mitigate exposures arising from the fluctuations in electricity spot price and oil spot price embedded in gas contracts. In most of the cases, the hedging instruments have a one-to-one hedge ratio with the hedged items.

Effects of hedge accounting

The tables below summarise the effect of the hedge accounting on financial position and performance of the Group for the year ended 31 December 2020 and 2019:

			Favourable/(Unfavourable) changes in fair value used for measuring ineffectiveness				Amount reclassified from cash flow hedge reserve and credited/(charged) to profit or loss [a]	
Cash Flow Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedging instrument assets/(liabilities) HK$M	Hedging instruments HK$M	Hedged items HK$M	Fair value losses/(gains) recognised in cash flow hedge reserve HK$M	Hedge ineffectiveness recognised in profit or loss [a] HK$M	Hedged items affected profit or loss HK$M	Hedged future cash flows no longer expected to occur HK$M
At 31 December 2020								
Debt related transactions								
Interest rate risk [b]	**28,211**	**(1,080)**	**(620)**	**627**	**618**	**2**	**225**	**-**
Foreign exchange risk	**631**	**(37)**	**34**	**(34)**	**(34)**	**-**	**36**	**-**
Non-debt related transactions								
Foreign exchange risk	**16,447**	**(49)**	**(111)**	**111**	**111**	**-**	**(77)**	**-**
Energy portfolio risk – electricity [c]	**N/A**	**1,309**	**546**	**(544)**	**(544)**	**(2)**	**122**	**(121)**
Energy portfolio risk – gas [c]	**N/A**	**(613)**	**(834)**	**834**	**834**	**-**	**(158)**	**-**
At 31 December 2019								
Debt related transactions								
Interest rate risk [b]	23,904	(568)	(6)	6	6	-	(49)	-
Foreign exchange risk	1,113	(7)	23	(23)	(23)	-	22	-
Non-debt related transactions								
Foreign exchange risk	19,585	(13)	59	(59)	(59)	-	110	-
Energy portfolio risk – electricity [c]	N/A	649	383	(383)	(390)	7	(236)	139
Energy portfolio risk – gas [c]	N/A	121	352	(352)	(352)	-	244	-

2. Hedge Accounting (continued)

Effects of hedge accounting (continued)

Fair Value Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedged items HK$M	Accumulated fair value hedge adjustments included in carrying amount of hedged items HK$M	Favourable/(Unfavourable) changes in fair value used for measuring ineffectiveness		Hedge ineffectiveness charged to finance costs HK$M
				Hedging instruments HK$M	Hedged items HK$M	
At 31 December 2020						
Debt related transactions						
Interest rate risk [(b)]	**5,481**	**(5,804)**	**(340)**	**302**	**(303)**	**1**
At 31 December 2019						
Debt related transactions						
Interest rate risk [(b)]	5,502	(5,497)	(37)	333	(336)	3

Notes:

(a) Hedge ineffectiveness and amounts reclassified from cash flow hedge reserve on non-debt and debt related transactions were recognised in fuel and other operating expenses and finance costs respectively.

(b) Also include foreign exchange risk in case of foreign currency debts

(c) The aggregate notional volumes of the outstanding energy derivatives were 88,331GWh (2019: 87,405GWh) and 7.9 million barrels (2019: 6.3 million barrels) for electricity and oil, respectively.

An analysis of other comprehensive income by risk category and the reconciliation of the components in equity that arises in connection with hedge accounting are as follows:

Cash Flow Hedge Reserve	Interest Rate Risk [(b)] HK$M	Foreign Exchange Risk HK$M	Energy Portfolio Risk HK$M	Total HK$M
Balance at 1 January 2019	237	53	84	374
Fair value (losses)/gains	(6)	82	742	818
Reclassification to profit or loss				
Hedged items affect profit or loss	49	(132)	(8)	(91)
Hedged future cash flows no longer expected to occur	–	–	(139)	(139)
Transfer to hedged assets	–	1	–	1
Related deferred tax	4	9	(178)	(165)
Exchange difference	–	1	(1)	–
Balance at 31 December 2019	284	14	500	798
Balance at 1 January 2020	284	14	500	798
Fair value losses	(618)	(77)	(290)	(985)
Reclassification to profit or loss				
Hedged items affect profit or loss	(225)	41	36	(148)
Hedged future cash flows no longer expected to occur	–	–	121	121
Transfer to hedged assets	–	1	–	1
Related deferred tax	145	7	40	192
Exchange difference	–	(1)	36	35
Balance at 31 December 2020	**(414)**	**(15)**	**443**	**14**

2. Hedge Accounting (continued)

Effects of hedge accounting (continued)

Cost of Hedging Reserve	Time Value of Options HK$M	Forward Element HK$M	Foreign Currency Basis Spread HK$M	Total HK$M
Balance at 1 January 2019	5	2	(68)	(61)
Changes due to transaction related hedged items				
Fair value losses	–	–	(25)	(25)
Reclassification to profit or loss	–	–	42	42
Changes due to time-period related hedged items				
Fair value losses	(10)	(38)	(24)	(72)
Reclassification to profit or loss	6	45	13	64
Related deferred tax	2	(1)	–	1
Exchange difference	(1)	–	(1)	(2)
Balance at 31 December 2019	2	8	(63)	(53)
Balance at 1 January 2020	2	8	(63)	(53)
Changes due to transaction related hedged items				
Fair value losses	–	–	(25)	(25)
Reclassification to profit or loss	–	–	27	27
Amount transferred to hedged assets	–	–	(2)	(2)
Changes due to time-period related hedged items				
Fair value (losses) / gains	(6)	(39)	203	158
Reclassification to profit or loss	4	32	(16)	20
Related deferred tax	1	3	(31)	(27)
Exchange difference	–	(1)	(1)	(2)
Balance at 31 December 2020	**1**	**3**	**92**	**96**

3. Fair Value Estimation and Hierarchy of Financial Instruments

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period.

For the Group's financial instruments that are not measured at fair value, their carrying values approximate their fair values.

Financial instruments measured at fair value are analysed into the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

3. Fair Value Estimation and Hierarchy of Financial Instruments (continued)

(A) Fair value hierarchy

The following table presents the Group's financial instruments that are measured at fair value at 31 December:

	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
At 31 December 2020				
Financial assets				
Investments at fair value through other comprehensive income	**238**	**–**	**35**	**273**
Investments at fair value through profit or loss	**–**	**–**	**291**	**291**
Forward foreign exchange contracts	**–**	**129**	**–**	**129**
Foreign exchange options	**–**	**7**	**–**	**7**
Cross currency interest rate swaps	**–**	**509**	**–**	**509**
Interest rate swaps	**–**	**69**	**–**	**69**
Energy contracts	**783**	**824**	**1,192**	**2,799**
	1,021	**1,538**	**1,518**	**4,077**
Financial liabilities				
Forward foreign exchange contracts	**–**	**175**	**–**	**175**
Cross currency interest rate swaps	**–**	**1,212**	**–**	**1,212**
Interest rate swaps	**–**	**185**	**–**	**185**
Energy contracts	**7**	**922**	**800**	**1,729**
	7	**2,494**	**800**	**3,301**
At 31 December 2019				
Financial assets				
Investments at fair value through other comprehensive income	296	–	35	331
Investments at fair value through profit or loss	–	–	247	247
Forward foreign exchange contracts	–	280	–	280
Foreign exchange options	–	19	–	19
Cross currency interest rate swaps	–	206	–	206
Interest rate swaps	–	46	–	46
Energy contracts	–	288	1,585	1,873
	296	839	1,867	3,002
Financial liabilities				
Forward foreign exchange contracts	–	121	–	121
Cross currency interest rate swaps	–	898	–	898
Interest rate swaps	–	89	–	89
Energy contracts	514	168	508	1,190
	514	1,276	508	2,298

The Group's policy is to recognise transfers into / out of fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer. During 2020 and 2019, there were no transfers between Level 1 and Level 2.

3. Fair Value Estimation and Hierarchy of Financial Instruments (continued)

(B) Valuation techniques used to determine fair values

The valuation techniques and inputs used in the fair value measurements within Level 2 and Level 3 are as follows:

Financial Instruments	Valuation Techniques	Significant Inputs
Investments at fair value through profit or loss	Recent arm's length transactions or net asset value of funds	Not applicable
Forward foreign exchange contracts	Discounted cash flow	Observable exchange rates
Foreign exchange options	Garman Kohlhagen Model	Observable exchange rates, interest rates and volatility levels
Cross currency interest rate swaps	Discounted cash flow	Observable exchange rates and swap rates of respective currency
Interest rate swaps	Discounted cash flow	Observable swap rates of respective currency
Energy contracts	Discounted cash flow	Brokers' quotes and observable exchange traded swap and cap price curves; and long term forward electricity price and cap price curve

The significant unobservable inputs of energy contracts used for fair value measurement included long term forward electricity price and cap price curve. The finance department of EnergyAustralia includes a team that performs the valuations of non-property assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to EnergyAustralia's Chief Financial Officer (CFO-EA) and ARC-EA. The valuation of Level 3 forward energy contracts involves the use of a short term forward curve which is observable in the liquid market and an internally generated long term forward electricity price and cap price curve which is derived using unobservable inputs. This short term forward curve is reviewed at least once every six months, in line with the Group's half-yearly reporting dates. Review of the long term forward curve is performed by the CFO-EA and ARC-EA annually due to the lack of market liquidity. Analysis of fair value changes is performed on a monthly basis for reasonableness.

(C) Movements and sensitivity analysis of Level 3 financial instruments

		2020			2019	
	Investments HK$M	**Energy Contracts HK$M**	**Total HK$M**	Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	**282**	**1,077**	**1,359**	136	339	475
Total (losses)/gains recognised in						
Profit or loss and presented in fuel and other operating expenses (note)	**(16)**	**7**	**(9)**	9	(157)	(148)
Other comprehensive income	**2**	**(650)**	**(648)**	–	741	741
Purchases	**58**	**–**	**58**	137	–	137
Settlements	**–**	**(42)**	**(42)**	–	106	106
Transfer out of Level 3	**–**	**–**	**–**	–	48	48
Closing balance	**326**	**392**	**718**	282	1,077	1,359

Note: Out of which, unrealised losses recognised in profit or loss relating to the assets and liabilities held at the end of the reporting period was HK$3 million (2019: gains of HK$64 million).

At 31 December 2020 and 2019, the valuation of long tenure energy contracts is sensitive to electricity pool price assumptions. A favourable and unfavourable change of 15% (2019: 15%) would cause the balance of the energy contracts to rise by HK$802 million (2019: HK$859 million) and decline by HK$806 million (2019: HK$860 million) respectively, with all other variables held constant.

4. Offsetting Financial Assets and Financial Liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements or similar agreements:

	Effect of offsetting in the consolidated statement of financial position			Related amounts not offset in the consolidated statement of financial position		
	Gross amounts recognised HK$M	Gross amounts offset HK$M	Net amounts presented in the respective line HK$M	Financial instruments HK$M	Financial instrument collateral HK$M	Net amount [(a)] HK$M
At 31 December 2020						
Financial assets						
Bank balances, cash and other liquid funds	**536**	**–**	**536**	**(536)**	**–**	**–**
Trade receivables and service concession receivables	**5,413**	**–**	**5,413**	**(3,623)**	**(1,790)**	**–**
Derivative financial instruments	**4,052**	**(788)**	**3,264**	**(444)** [(b)]	**–**	**2,820**
	10,001	**(788)**	**9,213**	**(4,603)**	**(1,790)**	**2,820**
Financial liabilities						
Customers' deposits	**5,895**	**–**	**5,895**	**(1,790)**	**–**	**4,105**
Bank loans and other borrowings	**10,706**	**–**	**10,706**	**–**	**(4,159)**	**6,547**
Derivative financial instruments	**3,823**	**(788)**	**3,035**	**(444)** [(b)]	**–**	**2,591**
	20,424	**(788)**	**19,636**	**(2,234)**	**(4,159)**	**13,243**
At 31 December 2019						
Financial assets						
Bank balances, cash and other liquid funds	279	–	279	(279)	–	–
Trade receivables and service concession receivables	5,149	–	5,149	(3,134)	(2,015)	–
Derivative financial instruments	2,976	(883)	2,093	(172) [(b)]	–	1,921
	8,404	(883)	7,521	(3,585)	(2,015)	1,921
Financial liabilities						
Customers' deposits	5,677	–	5,677	(2,015)	–	3,662
Bank loans and other borrowings	10,686	–	10,686	–	(3,413)	7,273
Derivative financial instruments	3,063	(883)	2,180	(172) [(b)]	–	2,008
	19,426	(883)	18,543	(2,187)	(3,413)	12,943

Notes:

(a) Under HKFRS, amounts cannot be offset if the rights of set-off are conditional on a future event e.g. default of payment. "Net amount" column represents the net impact that would be shown on the consolidated statement of financial position if all set-off rights (e.g. master netting arrangements, collateral arrangements, etc.) were exercised. These items include (1) restricted cash of CLP India group; (2) trade receivables related to Hong Kong electricity business where customers' deposits are served as security for payments; (3) trade receivables and service concession receivables of subsidiaries in Mainland China and India which are pledged against their bank loans and other borrowings; and (4) bank loans and other borrowings of subsidiaries in Mainland China and India which are secured by charges over certain financial assets or rights to income.

(b) For derivative financial instruments, the Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements in which there is a set-off provision. Under certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, a termination value is then assessed and only a single net amount is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position since the Group does not have any currently legally enforceable right to offset recognised amounts. The right to offset is enforceable only on the occurrence of future events such as a default on the bank transactions or other credit events.

5. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The Group manages its capital structure and fine-tunes it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or change the level of debts. The Group's capital management objectives, policies or processes were unchanged during 2020 and 2019.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

	2020 HK$M	2019 HK$M
Total debt [(a)]	**54,348**	52,349
Net debt [(b)]	**42,640**	44,023
Total equity [(c)]	**126,993**	120,673
Total capital (based on total debt) [(d)]	**181,341**	173,022
Total capital (based on net debt) [(e)]	**169,633**	164,696
Total debt to total capital (based on total debt) ratio (%)	**30.0**	30.3
Net debt to total capital (based on net debt) ratio (%)	**25.1**	26.7

Moderate decrease in the Group's net debt to total capital is mainly attributable to lower net debt from higher cash inflow.

Certain entities of the Group are subject to loan covenants. For both 2020 and 2019, there is no material non-compliance with those loan covenants.

Notes:

(a) Total debt equals bank loans and other borrowings.

(b) Net debt equals total debt less bank balances, cash and other liquid funds.

(c) Total equity equals equity plus advances from non-controlling interests.

(d) Total capital (based on total debt) equals total debt plus total equity.

(e) Total capital (based on net debt) equals net debt plus total equity.

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power Hong Kong) operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), in which CLP Power Hong Kong owned 70%. CLP Power Hong Kong builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power Hong Kong transmits and distributes to its customers in Kowloon and the New Territories. CLP Power Hong Kong owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (the SoC Companies) have been governed by a Scheme of Control (SoC) Agreement with the Hong Kong Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for the Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power Hong Kong is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The current SoC took effect from 1 October 2018 and covers a term of over 15 years ending on 31 December 2033. The SoC contains a provision to give the SoC Companies protection for stranded costs, which may arise as a result of future changes to the market structure which adversely impact on the SoC Companies' ability to recover and to earn returns on existing investments made in good faith in accordance with the SoC. These costs will include the costs of investments, fuel and power purchase agreements previously approved by the Hong Kong Government. If stranded costs arise after the SoC Companies have implemented mitigation measures reasonably required by the Hong Kong Government, the SoC Companies are entitled to recover them from the market, consistent with international practice. Three years before market changes are introduced, the SoC Companies and the Hong Kong Government will agree on the amount of stranded costs and the mechanism for their recovery by the SoC Companies.

Tariff Setting Mechanism

For each year, CLP Power Hong Kong designs the net tariff it charges to cover the SoC Companies' operating costs and allowed net return. The net tariff consists of the following components:

(i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula "(a-b) / c":

  (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;

  (b) 80% of the profit on electricity sale to Mainland China; and

  (c) local unit sales as determined by the load forecast.

(ii) fuel clause charge or rebate (Fuel Cost Adjustment) which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate. The Fuel Cost Adjustment may be adjusted from time to time, including on a monthly basis, to reflect changes in the cost of fuels consumed by the SoC Companies for the generation of electricity.

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund. The Tariff Stabilisation Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power Hong Kong. A charge on the average balance of the Tariff Stabilisation Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power Hong Kong, which balance as at the end of each year is to be transferred to the Tariff Stabilisation Fund in the following year.

Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:

- The annual permitted return under the SoC is 8% of the SoC Companies' average net fixed assets.
- The net return under the SoC is the permitted return after the deduction or adjustment of the following items:

(a) Interest up to a maximum of 7% per annum on borrowed capital arranged for financing fixed assets;

(b) a charge of the average one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;

(c) an excess capacity adjustment of 8% less an allowed interest charge up to 7% per annum on the average related excess capacity expenditure;

(d) interest up to 7% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and

(e) performance-linked incentives / penalties adjustments

Category	% incentive (+) / penalties (-)
Operation performance related incentives / penalties	in the range of -0.05% to +0.05% on average net fixed assets
Energy efficiency and renewable performance incentives	• a maximum of 0.315% on average net fixed assets • incentive of 10% of renewable energy certificates sales revenue • five-year energy saving and renewable energy connections incentives with a maximum of 0.11% on the average net fixed assets at the final year of the five-year period
Demand response reduction incentive	a maximum of 0.025% on average net fixed assets

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements.

Under the SoC, 65% of the energy efficiency incentives earned by the SoC Companies are to be contributed to a CLP Community Energy Saving Fund (CESF) to support programmes in promotion of energy efficiency, use of renewable energy, the disadvantaged groups and other programmes as agreed with the Hong Kong Government.

The calculations shown on next page are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2020 HK$M	2019 HK$M
SoC revenue	**41,905**	40,633
Expenses		
Operating costs	**5,170**	5,036
Fuel	**13,790**	13,150
Purchases of nuclear electricity	**5,582**	5,643
Provision for asset decommissioning	**141**	188
Depreciation	**5,011**	4,753
Operating interest	**976**	978
Taxation	**1,904**	1,853
	32,574	31,601
Profit after taxation	**9,331**	9,032
Interest on increase in customers' deposits	**–**	4
Interest on borrowed capital	**1,111**	1,100
Adjustment for performance incentives	**(416)**	(392)
Profit for SoC	**10,026**	9,744
Transfer to Tariff Stabilisation Fund	**(519)**	(526)
Permitted return	**9,507**	9,218
Deduct interest on / Adjustment for		
Increase in customers' deposits as above	**–**	4
Borrowed capital as above	**1,111**	1,100
Performance incentives as above	**(416)**	(392)
Tariff Stabilisation Fund to Rate Reduction Reserve	**18**	22
	713	734
Net return	**8,794**	8,484
CESF contribution	**(201)**	(195)
Net return after CESF contribution	**8,593**	8,289
Divisible as follows:		
CLP Power Hong Kong	**5,769**	5,582
CAPCO	**2,824**	2,707
	8,593	8,289
CLP Power Hong Kong's share of net return after CESF contribution		
CLP Power Hong Kong	**5,769**	5,582
Interest in CAPCO	**1,977**	1,895
	7,746	7,477

Five-year Summary: CLP Group Statistics

Economic

	2020	2019	2018	2017	2016
Consolidated Operating Results, HK$M					
Revenue					
Hong Kong electricity business	**41,325**	40,025	40,872	39,485	37,615
Energy businesses outside Hong Kong	**37,687**	45,088	49,793	52,101	41,459
Others	**578**	576	760	487	360
Total	**79,590**	85,689	91,425	92,073	79,434
Earnings					
Hong Kong electricity business	**7,818**	7,448	8,558	8,863	8,640
Hong Kong electricity business related	**270**	211	227	335	203
Mainland China	**2,233**	2,277	2,163	1,238	1,521
India	**175**	263	572	647	469
Southeast Asia and Taiwan	**386**	335	162	160	274
Australia	**1,690**	1,566	3,302	2,738	1,849
Other earnings in Hong Kong	**(238)**	(199)	(92)	(65)	62
Unallocated net finance income/(costs)	**24**	(42)	(54)	(2)	33
Unallocated Group expenses	**(781)**	(738)	(856)	(607)	(717)
Operating earnings	**11,577**	11,121	13,982	13,307	12,334
Impairment and provision reversal	**–**	(6,381)	(450)	–	(203)
Property revaluation and transaction	**(121)**	(83)	18	369	497
Reversal of tax provision	**–**	–	–	573	83
Total earnings	**11,456**	4,657	13,550	14,249	12,711
Dividends	**7,832**	7,782	7,630	7,352	7,074
Depreciation and amortisation, owned and leased assets	**8,476**	8,118	8,005	7,368	6,909
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**119,873**	117,042	113,295	109,824	106,886
Other fixed assets	**36,642**	33,744	34,650	33,914	32,535
Goodwill and other intangible assets	**20,559**	20,111	26,910	29,087	27,653
Interests in joint ventures	**11,017**	9,999	9,674	10,383	9,971
Interests in associates	**9,181**	8,708	7,746	8,081	813
Other non-current assets	**3,568**	3,193	2,739	3,152	4,837
Current assets	**33,393**	28,826	35,500	33,710	23,538
Total assets	**234,233**	221,623	230,514	228,151	206,233
Shareholders' funds	**112,200**	105,455	109,053	108,697	98,010
Perpetual capital securities	**3,887**	3,887	5,791	5,791	5,791
Other non-controlling interests	**9,885**	9,987	10,088	7,019	1,972
Equity	**125,972**	119,329	124,932	121,507	105,773
Bank loans and other borrowings	**54,348**	52,349	55,298	57,341	51,646
SoC reserve accounts	**2,374**	1,500	998	977	860
Other current liabilities	**27,260**	26,911	28,099	27,962	26,944
Other non-current liabilities	**24,279**	21,534	21,187	20,364	21,010
Total liabilities	**108,261**	102,294	105,582	106,644	100,460
Equity and total liabilities	**234,233**	221,623	230,514	228,151	206,233

A ten-year summary is on our website.

	2020	2019	2018	2017	2016
Consolidated Statement of Cash Flows, HK$M					
Funds from operations	**24,418**	23,502	26,584	26,506	25,353
Net cash inflow from operating activities	**22,374**	21,345	23,951	24,417	23,676
Net cash outflow from investing activities	**(10,081)**	(5,824)	(11,259)	(16,735)	(8,296)
Net cash outflow from financing activities	**(10,211)**	(14,944)	(11,505)	(5,863)	(14,288)
Capital expenditure, owned and leased assets	**(10,586)**	(10,448)	(10,327)	(9,538)	(9,756)
Per Share Data, HK$					
Shareholders' funds per share	**44.41**	41.74	43.16	43.02	38.79
Earnings per share	**4.53**	1.84	5.36	5.64	5.03
Dividends per share	**3.10**	3.08	3.02	2.91	2.80
Closing share price					
Highest	**84.20**	96.85	96.95	85.30	83.90
Lowest	**65.00**	78.40	75.35	72.55	62.45
As at year-end	**71.70**	81.90	88.50	79.95	71.25
Ratios					
Return on equity, %	**10.5**	4.3	12.4	13.8	13.3
Operating return on equity, %	**10.6**	10.4	12.8	12.9	12.9
Total debt to total capital, %	**30.0**	30.3	30.4	31.8	31.5
Net debt to total capital, %	**25.1**	26.7	25.5	27.8	29.5
FFO interest cover, times	**13**	12	13	15	14
Price / Earnings, times	**16**	45	17	14	14
Dividend yield, %	**4.3**	3.8	3.4	3.6	3.9
Dividend cover, times	**1.5**	1.4	1.8	1.8	1.7
Dividend pay-out, %					
Total earnings	**68.4**	167.1	56.3	51.6	55.7
Operating earnings	**67.7**	70.0	54.6	55.2	57.4
Total return to shareholders [1], %	**5.2**	8.7	9.6	8.4	6.4
Group Generation Capacity [2]					
(owned / operated / under construction), MW					
– by region					
Hong Kong	**8,143**	7,568	7,543	7,483	7,483
Mainland China	**7,905**	7,905	7,869	7,985	7,181
India	**1,890**	1,842	1,796	2,948	2,978
Southeast Asia and Taiwan	**285**	285	285	285	285
Australia	**4,511**	4,508	4,478	4,505	4,505
	22,734	22,108	21,971	23,206	22,432
– by status					
Operational	**22,184**	21,468	21,127	22,118	21,560
Construction	**550**	640	844	1,088	872
	22,734	22,108	21,971	23,206	22,432

Notes:

1 Total return to shareholders represents the 10-year annualised rate of return from the combination of share price appreciation and dividend payments.

2 Group generation capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) Ecogen (2016 to 2017) on 100% as having right to use; and (c) other stations (including Ecogen since 2018) on the proportion of the Group's equity interests.

Environmental

Performance Indicators	Units	2020	2019	2018	2017	2016	GRI Standard	HKEx ESG Reporting Guide Reference
Greenhouse Gas Emissions								
CLP Group[1]								
Total CO_2e emissions – on an equity basis[2,3]	kt	**62,138**	71,720	N/A	N/A	N/A		A1.2
CO_2e – Scope 1[4]	kt	**45,105**	50,047	N/A	N/A	N/A	305-1	
CO_2e – Scope 2	kt	**244**	250	N/A	N/A	N/A	305-2	
CO_2e – Scope 3	kt	**16,790**	21,424	N/A	N/A	N/A	305-3	
CLP Group's generation and energy storage portfolio[3,4,5,6]								
CO_2 – on an equity basis	kt	**44,987**	N/A	N/A	N/A	N/A	102-48, 305-1, 305-2	A1.2
CO_2 – on an equity plus long-term capacity and energy purchase basis[7]	kt	**48,621**	N/A	N/A	N/A	N/A	102-48, 305-1, 305-2	A1.2
CO_2 – on an operational control basis	kt	**43,808**	50,412	52,052	47,921	46,518	102-48, 305-1, 305-2	A1.2
CO_2e – on an operational control basis	kt	**44,023**	50,676	52,306	48,082	46,681	102-48, 305-1, 305-2	A1.2
Climate Vision 2050[3,4,5,6]								
Performance against targets - on an equity basis /an equity plus long-term capacity and energy purchase basis[7]								
Carbon dioxide emissions intensity of CLP Group's generation and energy storage portfolio	kg CO_2 /kWh	**0.65/ 0.57**	0.70/ 0.62	0.74/ 0.66	0.80/ 0.69	0.82/ 0.72	305-4	A1.2
Renewable energy generation capacity	% (MW)	**12.8 (2,517)/ 13.5 (3,342)**	12.8 (2,469)/ 13.7 (3,294)	12.5 (2,387)/ 12.8 (3,039)	14.2 (2,751)/ 13.1 (3,211)	16.6 (3,090)/ 14.9 (3,551)		
Non-carbon emitting generation capacity	% (MW)	**20.9 (4,110)/ 24.4 (6,017)**	21.1 (4,069)/ 24.9 (5,979)	20.9 (3,987)/ 24.1 (5,724)	22.4 (4,350)/ 23.2 (5,699)	19.2 (3,582)/ 20.7 (4,931)		
Operations[2,8]								
Generation and energy storage capacity by asset type on an equity basis /an equity plus long-term capacity and energy purchase basis[7]								
Coal	% (MW)	**54.7 (10,765)/ 48.6 (11,997)**	56.0 (10,765)/ 50.0 (11,997)	56.3 (10,765)/ 50.6 (11,997)	58.8 (11,401)/ 51.4 (12,633)	61.2 (11,396)/ 53.1 (12,628)		
Gas	% (MW)	**23.4 (4,600)/ 23.2 (5,717)**	21.8 (4,194)/ 21.4 (5,139)	21.7 (4,147)/ 21.4 (5,084)	17.7 (3,434)/ 21.7 (5,322)	18.4 (3,434)/ 22.4 (5,322)		
Nuclear	% (MW)	**8.1 (1,600)/ 10.9 (2,685)**	8.3 (1,600)/ 11.2 (2,685)	8.4 (1,600)/ 11.3 (2,685)	8.2 (1,600)/ 10.1 (2,488)	2.6 (492)/ 5.8 (1,380)		
Renewables	% (MW)	**12.8 (2,517)/ 13.5 (3,342)**	12.8 (2,469)/ 13.7 (3,294)	12.5 (2,386)/ 12.8 (3,039)	14.2 (2,751)/ 13.1 (3,211)	16.6 (3,090)/ 14.9 (3,551)		
Energy Storage	% (MW)	**0.0 (0)/ 2.7 (655)**	N/A N/A	N/A N/A	N/A N/A	N/A N/A		
Others	% (MW)	**1.1 (210)/ 1.2 (300)**	1.1 (210)/ 3.7 (900)	1.1 (210)/ 3.8 (900)	1.1 (210)/ 3.7 (900)	1.1 (210)/ 3.8 (900)		
Total	% (MW)	**100 (19,691)/ 100 (24,696)**	100 (19,238)/ 100 (24,015)	100 (19,108)/ 100 (23,705)	100 (19,395)/ 100 (24,554)	100 (18,622)/ 100 (23,781)		
Energy sent out[3,9] **by asset type on an equity basis /an equity plus long-term capacity and energy purchase basis**[7]								
Coal	% (GWh)	**57.4 (39,438)/ 47.8 (41,118)**	62.9 (44,596)/ 54.8 (48,512)	N/A 60	N/A 61	N/A 63		
Gas	% (GWh)	**18.0 (12,390)/ 20.0 (17,157)**	14.1 (9,979)/ 14.8 (13,073)	N/A 12	N/A 15	N/A 14		
Nuclear	% (GWh)	**16.3 (11,192)/ 23.2 (19,923)**	15.3 (10,888)/ 21.9 (19,400)	N/A 20	N/A 15	N/A 14		
Renewables	% (GWh)	**8.3 (5,678)/ 9.1 (7,855)**	7.7 (5,487)/ 8.7 (7,699)	N/A 8	N/A 9	N/A 9		
Energy Storage	% (GWh)	**0.0 (0)/ -0.1 (-118)**	N/A N/A	N/A N/A	N/A N/A	N/A N/A		
Others	% (GWh)	**0.0 (1)/ 0.0 (1)**	0 (0)/ -0.1 (-109)	N/A 0	N/A 0	N/A 0		
Total	% (GWh)	**100 (68,699)/ 100 (85,937)**	100 (70,949)/ 100 (88,573)	N/A 100	N/A 100	N/A 100		
Resource Use & Emissions[3,10,11]								
Nitrogen oxides (NO_x) emissions	kt	**43.2**	47.0	60.9	59.3	58.1	305-7	A1.1
Sulphur dioxide (SO_2) emissions	kt	**48.0**	44.7	76.1	81.6	71.2	305-7	A1.1
Particulates emissions	kt	**6.9**	7.7	8.5	8.3	8.5	305-7	A1.1
Sulphur hexafluoride (SF_6)	kt	**0.003**	N/A	N/A	N/A	N/A	305-7	A1.1
Non-hazardous waste produced[12]	t (solid)/kl (liquid)	**17,901/3**	13,344/59	11,471/52	20,334/103	8,317/84	306-2	A1.4
Non-hazardous waste recycled[12]	t (solid)/kl (liquid)	**4,458/3**	4,986/57	3,990/52	3,790/103	2,963/84	306-2	
Hazardous waste produced[12]	t (solid)/kl (liquid)	**1,503/1,901**	862/1,578	1,435/1,685	857/1,420	1,302/1,251	306-2	A1.3
Hazardous waste recycled[12]	t (solid)/kl (liquid)	**523/1,069**	201/1,536	631/1,648	469/1,384	260/1,149	306-2	
Total water withdrawal	Mm^3	**5,229.2**	5,377.4	5,153.6	4,480.6	4,256.9	303-3	A2.2
Total water discharge	Mm^3	**5,200.3**	5,337.1	5,103.2	4,437.7	4,219.3	303-4	

Notes:
1. Refers to a range of businesses, including generation and energy storage portfolio, transmission and distribution, retail and others.
2. Numbers have been subject to rounding. Any discrepancies between the total shown and the sum of the amounts listed are due to rounding.
3. Paguthan Power Station, the power purchase agreements of which expired in December 2018, was not included in the 2019 and 2020 numbers.
4. In accordance with the Greenhouse Gas Protocol, WE Station, which makes use of landfill gas from waste for power generation, is not included in CLP's Scope 1 CO_2 emissions and reported separately in the Asset Performance Statistics. Its non-CO_2 GHG emissions (i.e. CH_4 and N_2O) is included in CLP's Scope 1 CO_2e emissions.
5. Starting from 2020, the portfolio includes energy storage assets and generation assets. Energy storage assets include pumped storage and battery storage. In previous years, the portfolio included generation assets only.
6. CO_2 emissions of Yallourn and Hallet Power Stations have been used since 2018. Prior to 2018, CO_2e emissions data of these assets were used.
7. Numbers include assets with majority and minority share, and those under "long-term capacity and energy purchase" arrangements with CLP. Starting from 2018, "long-term capacity and energy purchase" has been defined as a purchase agreement with duration of at least five years, and capacity or energy purchased being no less than 10MW.
8. Starting from 2020, a new "Energy Storage" asset category is added, under which pumped storage and battery storage are included. In previous years, assets under the "Others" category included oil-fired generation assets and pumped storage.
9. Only percentages are available for the years 2016-18.

For more detailed narrative on the "Environmental, Social and Governance" related performance indicators, please refer to Capitals chapters and the Corporate Governance Report of this Annual Report.

Performance Indicators	Units	2020	2019	2018	2017	2016	GRI Standard	HKEx ESG Reporting Guide Reference
Fuel Use								
Coal consumed (for power generation)	TJ	**403,379**	485,453	521,568	471,976	453,904	302-1	A2.1
Gas consumed (for power generation)	TJ	**134,776**	107,183	83,364	91,426	86,787	102-48, 302-1	A2.1
Oil consumed (for power generation)	TJ	**2,243**	2,620	3,807	5,069	4,162	102-48, 302-1	A2.1
Environmental Compliance								
Environmental regulatory non-compliances resulting in fines or prosecutions	number	**0**	0	0	0	0	307-1	
Environmental licence limit exceedances & other non-compliances	number	**4**	10	2	13	2	307-1	

Social

Performance Indicators	Units	2020	2019	2018	2017	2016	GRI Standard	HKEx ESG Reporting Guide Reference
Employees [13]								
Employees by region							102-7	B1.1
Hong Kong	number	**4,689**	4,604	4,538	4,504	4,450		
Mainland China	number	**609**	607	596	577	560		
India	number	**442**	469	458	463	435		
Australia	number	**2,320**	2,280	2,042	1,998	1,983		
Total	number	**8,060**	7,960	7,634	7,542	7,428		
Employees eligible to retire within the next five years [14]							EU15	
Hong Kong	%	**20.4**	19.5	20.0	18.6	17.3		
Mainland China	%	**13.4**	14.5	13.2	10.6	12.1		
India	%	**5.1**	4.8	4.0	2.4	0.9		
Australia [15]	%	**5.7**	5.4	12.8	12.2	11.4		
Total	%	**14.5**	13.9	16.4	15.1	14.1		
Voluntary staff turnover rate [16, 17]							401-1	B1.2
Hong Kong	%	**3.1**	2.4	2.3	1.9	2.3		
Mainland China	%	**1.3**	2.0	4.7	3.0	3.4		
India	%	**4.7**	6.6	5.6	3.5	8.4		
Australia	%	**7.7**	12.9	13.6	13.8	12.6		
Average training hours per employee	hours	**42.5**	40.1	46.1	46.9	49.2	404-1	B3.2
Safety [18]								
Fatalities – employees only [19]	number	**0**	0	1	0	0	403-2	B2.1
Fatalities – contractors only [19]	number	**0**	1	1	4	3	403-2	B2.1
Fatality Rate – employees only [19, 20]	rate	**0.00**	0.00	0.01	0.00	0.00	403-2	B2.1
Fatality Rate – contractors only [19, 20]	rate	**0.00**	0.01	0.01	0.03	0.02	403-2	B2.1
Lost Time Injury – employees only [21]	number	**12**	7 [22]	11	11	3	403-2	
Lost Time Injury – contractors only [21]	number	**10**	19	11	16	10	403-2	
Lost Time Injury Rate – employees only [20, 21]	rate	**0.13**	0.07	0.13	0.13	0.04	403-2	
Lost Time Injury Rate – contractors only [20, 21]	rate	**0.09**	0.14	0.09	0.14	0.07	403-2	
Total Recordable Injury Rate – employees only [20, 23]	rate	**0.25**	0.19	0.19	0.21	0.11	403-2	
Total Recordable Injury Rate – contractors only [20, 23]	rate	**0.37**	0.52	0.29	0.36	0.19	403-2	
Days Lost – employees only [21, 24]	number	**443** [25]	464 [26]	249	252	9	102-48, 403-2	B2.2
Governance								
Convicted cases of corruption reported to the Audit & Risk Committee	cases	**0**	0	0	0	0	205-3	B7.1
Breaches of Code of Conduct reported to the Audit & Risk Committee	cases	**25**	31	20	28	21		

Notes:
10. Numbers include operating assets where CLP has operational control during the calendar year.
11. Since 2019, numbers at the asset level have been aggregated and then rounded.
12. Waste categorised in accordance with local regulations.
13. Starting from 2019, numbers have included full-time and part-time employees. Numbers in the previous years included full-time employees only.
14. The percentages given refer to permanent employees within each region, who are eligible to retire within the next five years.
15. There is no mandatory retirement age in Australia. Since 2019, retirement age assumption has been adjusted from 60 to 65 to reflect local norms, which led to a significantly lower percentage compared to previous years. Numbers in previous years adopting the adjusted retirement age for Australia are as follows: 2016 – Australia: 4.6%/Group total: 12.0%; 2017 – Australia: 4.8%/Group total: 12.9%; 2018 – Australia: 4.6%/Group total: 14.0%.
16. Voluntary turnover is employees leaving the organisation voluntarily and does not include dismissal, retirement, company-initiated termination or end of contract.
17. Includes permanent employees only except for Mainland China, which includes both permanent and fixed-term contract employees due to local employment legislation.
18. The system of rules applied in recording and reporting accident statistics complies with the International Labour Organization (ILO) Code of Practice on Recording and Notification of Occupational Accidents and Diseases. Each year's safety data cover the incidents that happened in that calendar year and are based on the latest information available at the time of publication.
19. A fatality is the death of an employee or contractor personnel as a result of an occupational illness/injury/disease incident in the course of employment.
20. All rates are normalised to 200,000 worked hours, which approximately equals to the number of hours worked by 100 people in one year.
21. Refers to an occupational illness/injury/disease sustained by an employee or contractor personnel causing him/her to miss one scheduled workday/shift or more after the day of the injury (including fatalities). A lost time injury does not include the day the injury incident occurred or any days that the injured person was not scheduled to work and it does not include restricted work injuries.
22. The health-related lost-time-injury in Australia was reported as lost time injury. It can also be categorised as occupational disease in Australia.
23. Total recordable injuries count all occupational injury incidents and illness other than first aid cases. They include fatalities, lost time injuries, restricted work injuries, and medical treatment.
24. Refers to the number of working days lost when workers are unable to perform their usual work because of an occupational accident or disease. A return to limited duty or alternative work for the same organisation does not count as lost days.
25. 188 out of 443 days were carried forward from one incident in the past.
26. 158 out of 464 days were carried forward from three incidents in the past.

*All 2020 data on this page have been independently verified by PricewaterhouseCoopers **except** those numbers which are shaded in grey.*

Five-year Summary: Scheme of Control Financial & Operating Statistics
CLP Power Hong Kong Limited and Castle Peak Power Company Limited

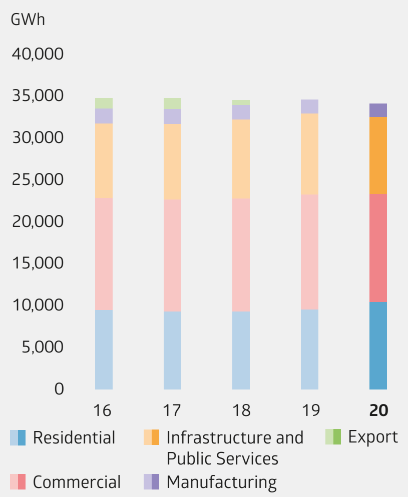
	2020	2019	2018	2017	2016
SoC Financial Statistics					
Combined Profit & Loss Statement, HK$M					
Profit for SoC	**10,026**	9,744	10,756	10,783	10,407
Transfer (to)/from Tariff Stabilisation Fund	**(519)**	(526)	(191)	42	151
Permitted return	**9,507**	9,218	10,565	10,825	10,558
Less: Interest on/Adjustment for					
Borrowed capital	**1,111**	1,100	1,055	976	952
Increase in customers' deposits	**–**	4	1	–	–
Performance incentives	**(416)**	(392)	(105)	(54)	(53)
Tariff Stabilisation Fund	**18**	22	11	4	2
Net return	**8,794**	8,484	9,603	9,899	9,657
Combined Balance Sheet, HK$M					
Net assets employed					
Fixed assets	**120,523**	117,157	113,295	109,824	106,886
Non-current assets	**351**	213	198	268	440
Current assets	**6,350**	4,231	6,559	7,606	4,061
	127,224	121,601	120,052	117,698	111,387
Less: current liabilities	**23,046**	28,115	24,699	22,565	21,474
Net assets	**104,178**	93,486	95,353	95,133	89,913
Exchange fluctuation account	**555**	9	81	(21)	(279)
	104,733	93,495	95,434	95,112	89,634
Represented by					
Equity	**47,807**	46,205	46,569	44,736	42,147
Long-term loans and other borrowings	**37,146**	29,792	32,274	34,251	28,885
Deferred liabilities	**17,761**	16,020	15,650	15,379	17,816
Tariff Stabilisation Fund	**2,019**	1,478	941	746	786
	104,733	93,495	95,434	95,112	89,634
Other SoC Information, HK$M					
Total electricity sales	**41,798**	40,473	40,982	39,161	37,120
Capital expenditure	**8,882**	9,097	8,922	8,068	7,292
Depreciation	**5,011**	4,753	4,931	4,706	4,375
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,672**	2,636	2,597	2,556	2,524
Sales analysis, millions of kWh					
Commercial	**12,878**	13,584	13,425	13,220	13,234
Manufacturing	**1,616**	1,663	1,704	1,740	1,751
Residential	**10,298**	9,451	9,191	9,217	9,394
Infrastructure and Public Services	**9,171**	9,586	9,342	8,987	8,858
Local	**33,963**	34,284	33,662	33,164	33,237
Export	**–**	–	556	1,341	1,205
Total Electricity Sales	**33,963**	34,284	34,218	34,505	34,442
Annual change, %	**(0.9)**	0.2	(0.8)	0.2	0.6
Renewable Energy Certificate Sold, millions of kWh	**5**	3	–	–	–
Local consumption, kWh per person	**5,404**	5,459	5,433	5,397	5,451
Local sales, HK¢ per kWh (average)					
Basic Tariff	**92.3**	90.7	93.3	91.8	88.9
Fuel Cost Adjustment [1]	**28.4**	27.9	23.2	21.0	24.3
Total Tariff	**120.7**	118.6	116.5	112.8	113.2
Rent and Rates Special Rebate [2]	**(1.2)**	(0.1)	(1.1)	–	–
Net Tariff [3]	**119.5**	118.5	115.4	112.8	113.2
Annual change in Basic Tariff, %	**1.8**	(2.8)	1.6	3.3	2.1
Annual change in Total Tariff, %	**1.8**	1.8	3.3	(0.4)	(0.8)
Annual change in Net Tariff, %	**0.8**	2.7	2.3	(0.4)	(0.8)

A ten-year summary is on our website.

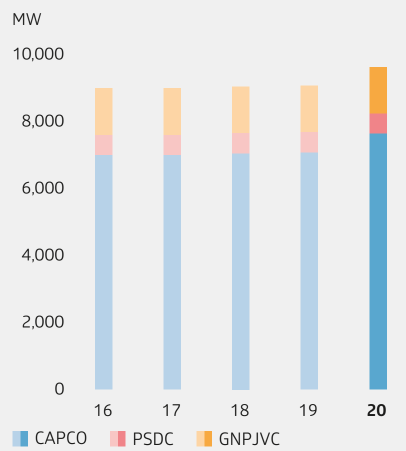
	2020	2019	2018	2017	2016
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**9,573**	8,988	8,963	8,913	8,913
System maximum demand					
Local, MW [4]	**7,264**	7,206	7,036	7,155	6,841
Annual change, %	**0.8**	2.4	(1.7)	4.6	(0.5)
System load factor, %	**57.3**	59.8	58.8	53.0	57.7
Generation by CAPCO stations, millions of kWh	**23,752**	24,952	24,642	25,032	26,056
Sent out, millions of kWh –					
From own generation	**22,605**	23,369	23,032	23,456	24,362
Net transfer from GNPS/GPSPS/Others	**12,583**	12,276	12,504	12,428	11,505
From Feed-in Tariff customers	**45**	9	–	–	–
Total	**35,233**	35,654	35,536	35,884	35,867
Fuel consumed, terajoules –					
Oil	**1,538**	1,711	2,714	3,894	3,452
Coal	**63,505**	141,830	150,310	148,065	160,661
Gas	**131,244**	80,695	72,969	75,807	74,559
Total	**196,287**	224,236	225,993	227,766	238,672
Cost of fuel, HK$ per gigajoule – Overall	**65.94**	55.47	54.79	49.30	43.77
Thermal efficiency, % based on units sent out	**40.8**	37.5	36.7	37.1	36.7
Plant availability, %	**87.5**	86.4	86.4	84.6	84.1
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	555	555	555	555
132kV	**1,679**	1,671	1,642	1,646	1,656
33kV	**22**	22	22	22	24
11kV	**13,990**	13,782	13,643	13,455	13,046
Transformers, MVA	**69,131**	68,251	67,607	66,938	65,834
Substations –					
Primary	**235**	232	232	232	230
Secondary	**15,028**	14,867	14,685	14,483	14,254
Employees and Productivity					
Number of SoC employees	**3,861**	3,815	3,798	3,831	3,808
Productivity, thousands of kWh per employee	**8,849**	9,007	8,825	8,683	8,718

Notes:
1 The Fuel Cost Adjustment has replaced the Fuel Clause Charge effective from October 2014. Commencing 1 October 2018, the Fuel Cost Adjustment is automatically adjusted on a monthly basis to reflect changes in actual price of fuel used.
2 CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 1.1 cents per unit from January 2018 to mid-February 2019 and 1.2 cents per unit in 2020, returning to customers the refunds received from the Government in relation to CLP Power's claims against the Government's overcharged rent and rates.
3 Effective net tariffs including one-off special fuel rebates in 2017 was 110.5 cents per unit.
4 Taking into account the effect of the customer programme of demand response pursued to reduce electricity usage, the maximum demand would have been higher at 7,268 MW in 2019 and 7,368 MW in 2020.

Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets